STOCKS | FUNDS | INVESTMENT TRUSTS | PENSIONS AND SAVINGS

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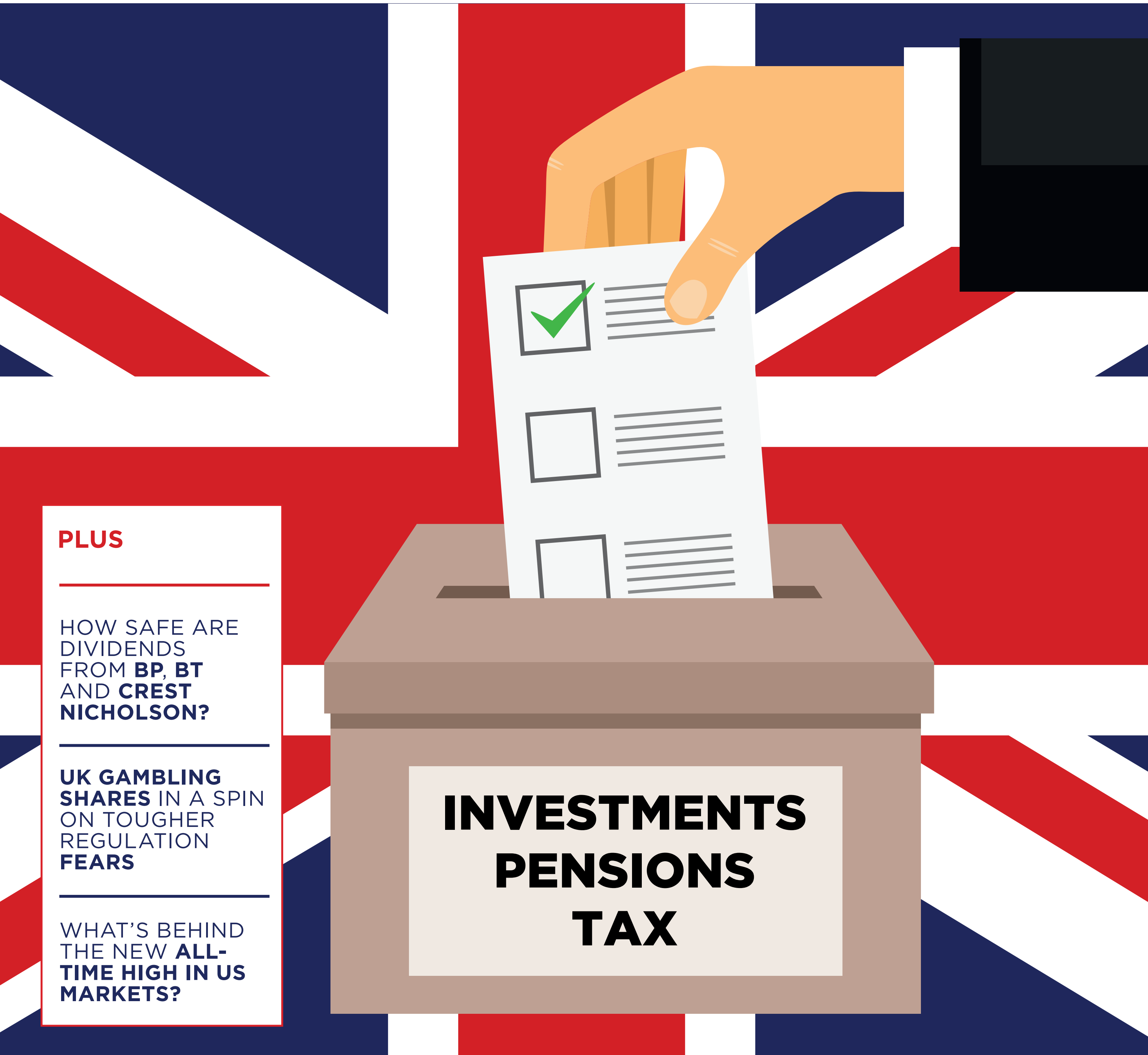
SHARES

WE MAKE INVESTING EASIER

WHAT THE BIG VOTE MEANS FOR YOUR MONEY



PLUS

HOW SAFE ARE DIVIDENDS FROM **BP**, **BT** AND **CREST NICHOLSON?**

UK GAMBLING SHARES IN A SPIN ON TOUGHER REGULATION **FEARS**

WHAT'S BEHIND THE NEW **ALL-TIME HIGH IN US MARKETS?**

How do we get people to read pension statements?

The Government wants to improve the way pension information is sent to the public

Once a year anyone saving into a defined contribution pension plan receives an annual statement to show how much they've got and what their pot might be worth at retirement.

The purpose is to keep people informed so they can work out if they might have adequate money in retirement to live the life they want.

The document has good intentions but, in typical financial industry fashion, many annual statements are too long and overly-complex, meaning the important messages may not be getting through.

The Government is now holding a consultation on simplifying these statements so they are free of jargon and are written in an easy-to-understand manner.

WHAT MIGHT CHANGE?

The documents should still have the same messages: how much is currently in the pension pot and how much could you have when you retire?

However – and this is very important – the Government also wants the statements to address a third question: what can you do to have more money in retirement?

It wants to encourage people to think more about retirement planning. That is likely to require pension providers being better at marketing and offering guidance on managing money and setting aside cash to go into your retirement pot.

That's all very well, but what about getting people to open the annual statements in the first place? For example, investment platform Hargreaves Lansdown says 85% of its pension customers log into their account every year but most don't open their annual statements.

ORANGE MAGIC

In Sweden, state pension statements are sent in orange envelopes to distinguish them from other types of government mail. Sweden also conducts a national advertising campaign to raise public awareness of the orange envelope.

A SIFO survey found that 82% of orange envelope recipients classified as 'general pension savers' in Sweden opened the correspondence in 2014.

In the UK, the Government says Sweden's efforts prove how people can be encouraged to engage with pensions by generating a national conversation about retirement saving. It would come as no surprise if it copied the idea to improve pension communication in the UK.

MORE ACTION IS NEEDED

It is important to give the public the right information on how to plan financially for retirement. There are lots of ideas but not enough action. For example, we're still waiting for the introduction of Pension Dashboards which could become an important retirement planning tool as they should let you see all your different pensions in one place, thereby giving you a more rounded view of your retirement savings.

This month sees 'wake-up' packs from pension providers start to be sent to 50-year-olds; previously they were only sent to people on the verge of retirement. The packs aim to make people think about whether they are saving enough and whether they understand the different ways to use a pension.

One could argue that elements of this pack should be sent to people a lot earlier in life as time in the market and years of saving are very important to building up a decent sized pension pot.

The Government is right to be looking closely at ways to improve pension communication. All we need now is progress and not endless consultation as anything to improve pension engagement has to be positive in the long-term.

By **Daniel Coatsworth** Editor

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How safe are dividends from BP, BT and Crest Nicholson?

We explain the growing concerns over cash payouts from three FTSE 100 companies

According to the latest AJ Bell Dividend Dashboard report, the FTSE 100 is yielding 4.8%. However, the same research shows FTSE dividends are, on average, covered just 1.63 times by earnings which suggest investors need to investigate the sustainability of these payouts.

For example, the housebuilding sector offers some of the largest yields on the FTSE 100 but cracks are starting to appear. Furthermore, **BT's (BT.A)** dividend is under the spotlight and oil major **BP (BP.)** was forced to address speculation over its own dividend following its third quarter update (29 Oct).

Housebuilder **Crest Nicholson (CRST)** put investors on alert in the wake of its recent profit warning (31 Oct), saying it would continue to pay a dividend of 33p as long as it didn't see a significant deterioration in trading conditions.

Crest Nicholson is transitioning away from higher end properties where prices are under particular pressure and new chief executive Peter Truscott may feel he has greater leeway to scale back the dividend.

However, there are looming pressures on the housebuilders in general as build costs go up, the housing market softens and the regulatory backdrop becomes less helpful. Strong balance sheets seem unlikely to spare investors in the sector from dividend cuts indefinitely.

BP's finance director Brian Gilvary apparently told analysts any increase in the dividend before the departure of CEO Bob Dudley in early 2020 would be premature, leading to a fall in the share price, but the company subsequently announced that no decision had been made regarding the fourth quarter payout.

Telecoms group BT is also splitting analyst opinion on future dividends. The payout has been held at 15.4p per share for the past three years as it juggles substantial cash flow demands from infrastructure expansion plans while paying down its £18bn net debt and servicing its pension scheme deficit.

The company has so far insisted that it has no plans to cut dividends but consensus forecasts for the financial year to 31 March 2021 are pitched at 13.3p, a rough 14% cut. Numis analyst John Karidis believes this is an overly bleak assessment and that BT will only need to reduce dividends if it decides to accelerate its current fibre roll-out.

Speeding up its fibre plans could be the 'necessity that drives BT's hand', said Jefferies analyst Jerry Dellis. He argues that reducing its shareholder payout by 20% could prove a useful bargaining chip for light touch intervention with regulator Ofcom. The watchdog is set to publish its review on speeding up fibre roll-out across the UK in December.

FTSE 100 - HIGHEST YIELDING STOCKS

Company	Dividend yield	Dividend cover
Evraz	15.3%	1.34 times
Taylor Wimpey	11.9%	1.12 times
Persimmon	11.5%	1.15 times
Imperial Brands	11.1%	1.34 times
BT	8.5%	1.61 times
Aviva	8.3%	1.92 times
Standard Life Aberdeen	8.1%	0.87 times
Rio Tinto	7.8%	1.66 times
Barratt	7.5%	1.58 times
British American Tobacco	7.5%	1.54 times

Source: AJ Bell, 9 Oct 2019

UK gambling shares in a spin on tougher regulation fears

Gambling is set to become a key battleground in the general election

A cross-party group of politicians calling themselves the All-Party Parliamentary Group (AAPG), focused on gambling-related harm, has released a report which set alarm bells ringing in the gambling sector. The group is agitating for further reform, targeting stricter online restrictions.

Shares in the sector fell sharply on the news with **William Hill (WMH)** falling 12%, **888 (888)** down 10%, **GVC (GVC)** dropping 9% and **Flutter Entertainment (FLTR)** taking a 3% hit.

The recommendations of the report include a £2 stake limit on online slot machines, mirroring the reduction of fixed-odds betting terminals which came into force earlier this year, as well as blocking online credit card funding and restrictions on VIP accounts.

Labour's Caroline Harris, who led the AAPG report along with ex-Conservative leader Iain Duncan Smith, singled-out the Gambling Commission by saying that it was not 'fit for purpose' in the age of internet gambling and required more 'teeth' to sanction companies.

The report also recommends removing cash machines inside casinos, bingo clubs and amusement arcades.

Broker Canaccord Genuity believes the timing of the report's publication five weeks before a general election appears 'politically expedient'.

According to research by professors David Forrest and Ian McHale, around 30% of online slot play involves stakes above the £2 to £5 bracket and is therefore at risk.

Consultancy Regulus Partners estimates that overall sector 'at risk' revenue is approximately 5% to 10%, with slots-led gaming operators potentially being impacted by up to 30%.

However the profit impact is much worse because slots happen to be a very profitable segment with around 65% profit contribution before marketing costs. Using current industry revenues, this suggests around half of the industry's earnings before interest, tax, depreciation and amortisation (EBITDA) is at risk, and 30% will be lost according to Regulus Partners.

William Hill's shares fell 12% on the news

The industry has made progress to reform its practices on harm mitigation and is putting increasing funds into social causes in order to tackle the darker side of gambling.

According to Canaccord analysts the latest Gambling Commission data reported a significant decline in moderate risk gambling rates which doesn't suggest the need for greater regulation. In addition, it is difficult to see how lost tax revenues from a reduction in online stakes could be replaced.

That said, gambling will probably feature in the Labour Party's election manifesto and the Liberal Democrats and the SNP may include something similar. Even a Conservative government might be sympathetic to the wider social issues. Therefore the industry needs a strong response, backed-up with data and hard evidence supporting the claimed improvements to consumer outcomes.

Skin in the game doesn't mean better returns

Directors investing their own money aligns their interests with shareholders but it doesn't guarantee a profit

Picking a fund or an investment trust where the manager also has their own money invested is sometimes seen as a sure-fire way to guarantee better returns.

But an increasing number of investment commentators believe this is a misconception, and research from analysts at Investec shows this could well be the case when it comes to investment trusts.

In a report looking at 303 investment trusts, Investec analysts Alan Brierley and Ben Newell concluded that while having skin in the game sends a 'clear and powerful message' to both existing and potential investors, it is 'not a panacea for superior returns'.

The analysts highlighted two trusts in particular – **Boussard & Gavaudan (BGHS)** and **JZ Capital (JZCP)**, whose management have a whopping £129m and £100m of their personal wealth invested respectively.

In these cases the performance of both trusts were significantly underwhelming, but the managers were still rewarded handsomely. Newell said the size of the investments had given the managers 'too much power and [led to] weak corporate governance'.

In the case of Boussard & Gavaudan, over the past three years the annualised total return of the trust based on its net asset value (NAV) is only 2.5% a year, while over five years the compound annual growth rate of the trust's NAV is just 5.3%.

Meanwhile, the trust has an annual base management fee of 1.5% of NAV. Over the past five years, its management has raked in €101.7m in fees, comprising €49.1m in management fees and €52.6m in performance fees.

In the case of JZ Capital, over five years it has delivered NAV and shareholder total returns of 44% and 25% respectively, significantly behind the peer group average of 86% and 102% respectively.

SKIN IN THE GAME – LARGE MANAGER INVESTMENTS

Investment trust	Manager	Investment value
Pershing Square	Management team	£668.1m
Scottish Mortgage	Management team	£85.9m
Smithson Investment Trust	Terry Smith and other partners	£34.5m
Lindsell Train	Michael Lindsell/ Nick Train	£28.4m
Jupiter European Opportunities	Alex Darwall	£23.8m

Source: Janus Henderson Investors

The trust's average discount to NAV over the past five years has been 37%, more than double the peer group average of 17%.

Investec's analysts note that despite this 'disappointing experience for investors', the managers received base and performance fees totalling $128m in the five years to February 2019.

In addition, the report named and shamed 30 trusts whose boards' aggregate investment was worth less than the total fees they received over six months.

Despite some of the issues flagged with 'excessive' skin in the game, the analysts said a significant personal investment is still a good way to align interests between managers and shareholders.

They highlighted Simon Barnard, manager of **Smithson Investment Trust (SSON)**, who told them 90% of his investible wealth is in the trust with the rest invested in **Fundsmith Equity (B41YBW7)**.

DISCLAIMER: Editor Daniel Coatsworth owns shares in Smithson

Mothercare share price shattered by administration news

The company's UK demise is further sad news for the struggling retail sector

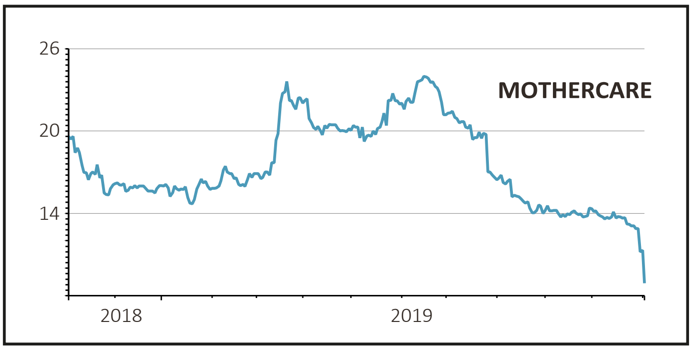
Shares in baby goods retailer **Mothercare (MTC)** crashed to a 20-month low of 8.38p on 4 November after its UK operations were put into administration.

Unlike most administration situations, Mothercare's shares continue to trade as it still has a profitable overseas operation and the administration does not affect the entire business. Traditionally an administration situation would normally see shares in the listed company suspended and then delisted.

Cash-strapped Mothercare insists the administration process marks 'a necessary step in the restructuring and refinancing of the group'. The UK stores will close down in the coming months.

Mothercare has concluded the UK retail operations consisting of 79 stores are 'not capable of returning to a level of structural profitability and returns that are sustainable for the group as it currently stands'.

Competition from supermarkets and cheaper online rivals, rising costs and years of under-investment in its online offering has ultimately damaged Mothercare. It actually spurned a 300p per share takeover bid five years ago from US peer Destination Maternity on the basis that the offer undervalued the business and its 'attractive prospects'.



Shares in Mothercare rebounded by 2.6% to 8.6p the day after the UK operations' administration news, perhaps as some investors took a punt on the remaining business being worth more than the current £29m market value.

FTSE 350 MOVERS OVER THE PAST WEEK

BEST PERFORMERS		
STOCK	**SHARE PRICE RISE**	**REASON**
Wood Group	13.2%	Energy services firm boosted by hopes of US-China trade progress
Glencore	9.5%	Trade optimism leads to brighter outlook on commodities demand
Softcat	9.2%	Continued positive reaction to recent full year results

WORST PERFORMERS		
STOCK	**SHARE PRICE FALL**	**REASON**
William Hill	-13.0%	Cross-party group of MPs call for tighter curbs on online casinos
888 Holdings	-9.9%	Also hit by threat of tougher UK regulation
Crest Nicholson	-9.4%	Issues profit warning

Source: Shares, SharePad. Data to 5 November 2019

THIS IS AN ADVERTORIAL

Capitalising on China's consumption story

Dale Nicholls, Portfolio Manager of Fidelity China Special Situations PLC, explains how a fast-growing middle class is increasingly driving stock market returns in China.

China is recognised as being a major driver of growth and investment performance, not just in Asia, but in the wider world. The sheer size of China's economy, its continued growth and ever-increasing global importance, mean investors increasingly consider exposure to China when building a balanced investment portfolio.

Since its launch in 2010, the trust has offered direct exposure to China's growth story, predominantly through a portfolio of small and mid-sized companies. As Portfolio Manager it is my job to try to identify and invest in companies that are best placed to capitalise on China's incredible transformation.

From my point of view, the drivers of performance of Fidelity China Special Situations PLC have always been – and will always be – the individual stocks that we invest in. Many of the stocks I own play into the growth and development of the domestic consumer. The rise of the middle class, its tremendous spending power, increasing aspirations and the way they consume, underpin a number of the portfolio's investments.

Of course, investing in China is not without risk, and the biggest concern for me is the build-up in debt over the last decade. There has been significant investment spending in China, but much of this has been debt-driven. The major issue is that while debt has increased, the magnitude of non-performing loans on banks' balance sheets has not been kept in check. While the banks are slowly making adequate provisions, the process is going to take some time which negatively impacts the outlook for Chinese banks.

A note should also be made on the ongoing trade discussions between the US and China which has driven gyrations in financial markets this year. I think it seems reasonable to expect this noisy macroeconomic and geopolitical environment to persist for the time being as negotiations continue. Longer-term, I ultimately think that a concrete trade deal being agreed remains the most desirable outcome due to the mutual damage a prolonged and full-blown trade war would bring to both economies - starting with higher prices for US consumers.

While some parts of the negotiation will be complex and difficult to reach full consensus, particularly around issues such as Chinese government support in certain strategic sectors, I believe both sides will be increasingly incentivised to reach an agreement.

Over the next few years, I am hoping we will see more reform from the government within its State-Owned Enterprises (SOEs). Many SOEs have amazing assets, but are often under-earning, as their focus is often to provide 'national service' rather than to realise profit. We are slowly seeing a change in mentality here, and if we do see more reform, there is great potential for selected companies to improve returns, which should translate into an upward movement in their share price.

While there are certainly opportunities in this space, it is worth noting that the core of the portfolio is still very much focused on private companies, with a preference for smaller and medium-sized firms. This area is less well-known by the market, so there is more mispricing. The more mispriced they are, the more potential upside for these investments. Identifying small and mid-caps allows us to really make the most of our information advantage from the team we have on the ground in Shanghai and Hong Kong, who are constantly out there looking for new ideas. This research capability is unmatched and helps us identify ideas which haven't really been discovered or are not so well understood by the market.

Important information

The value of investments can go down as well as up and you may not get back the amount you invested. Overseas investments are subject to currency fluctuations. The investment trust can gain additional exposure to the market, known as gearing, potentially increasing volatility. The trust invests more heavily than others in smaller companies, which can carry a higher risk because their share prices may be more volatile than those of larger companies. The shares in the investment trusts are listed on the London Stock Exchange and their price is affected by supply and demand. This information does not constitute investment advice and should not be used as the basis of any investment decision, nor should it be treated as a personal recommendation for any investment. If you are unsure about the suitability of an investment you should speak to an authorised financial adviser. Investors should note that the views expressed may no longer be current and may have already been acted upon.

Big money to be made with this self-storage group

Ambitious expansion plans should result in healthy returns for investors

It may not be a glamorous activity but storing the possessions of businesses and households is certainly a lucrative one. Self-storage play **Lok'n Store (LOK:AIM)** continues to churn out impressive growth numbers and has a clear expansion plan which is underpinned by a strong balance sheet, experienced management and robust market backdrop.

The company provides low cost, secure storage space for companies and individuals. Demand for these services has increased due to smaller homes, a more mobile population and corporate world, and people simply buying and hoarding stuff. At the same time self-storage supply has struggled to keep up.

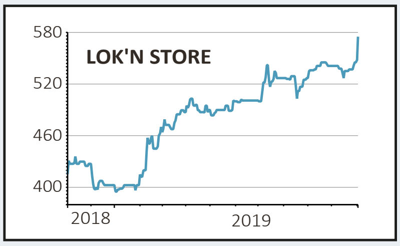
In the 12-month period to 31 July 2019 the company added five new sites, four of which it developed itself and one which it acquired, taking the total to 34. Around a third of these are not owned by Lok'n Store but managed by the company on behalf of third parties.

LOK'N STORE BUY

(LOK:AIM) 574p

Stop loss: 459.2p

Market cap: £169.3m



Two new stores should open in summer 2020, a further two have had planning proposals submitted, four are currently being designed and six are with lawyers.

The balance sheet looks in good shape to fund the development of this pipeline with a loan-to-value ratio of just 16.1%.

The market has begun to cotton on to the growth story at Lok'n Store with the shares up 43% since we highlighted the firm as a *Great Idea* in April 2018.

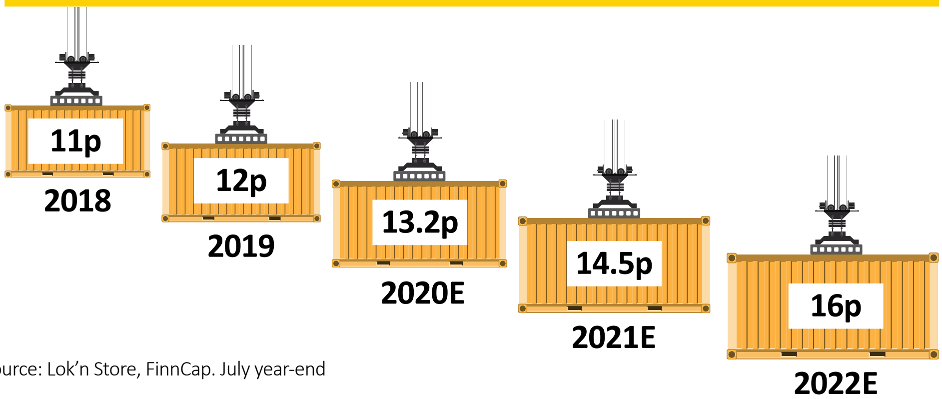
However, the stock remains at a significant discount to its rivals. House broker FinnCap notes it is at a single-digit premium to net asset value in percentage terms compared with a 65% average premium for its self-storage peers despite offering nearly double the growth in earnings.

Lok'n Store's sites, located in prominent locations and with distinctive orange livery, act as a calling card for its services. Founder and chief executive Andrew Jacobs tells *Shares* that 40% of its business comes from people who have driven past one of its warehouses.

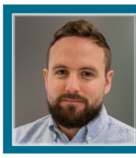
Pre-tax profit is not a particularly useful metric for measuring the company's performance as it tends to be impacted by the depreciation of its sites. The company flags cash available for distribution instead – which essentially shows how much cash is available to be paid out in dividends.

This was up 8% in the July 2019 financial year to 19p. FinnCap forecasts this total will reach 53p in the next nine years based on current and secured sites alone.

DIVIDEND GROWTH



Source: Lok'n Store, FinnCap. July year-end



By **Tom Sieber**
Deputy Editor

Science tools maker Oxford Instruments is a great share to buy

The FTSE 250 firm is getting its act together which could help to drive earnings and the share price

We live in a world of climate change, ageing populations, pressure on food and water supplies and depleting raw materials. Against these substantial challenges we look to science and technology to provide solutions, and **Oxford Instruments (OXIG)** hands the boffins the technology tools.

The FTSE 250 member is among the world leaders in its field, providing equipment to global industrial companies and the wider scientific research community.

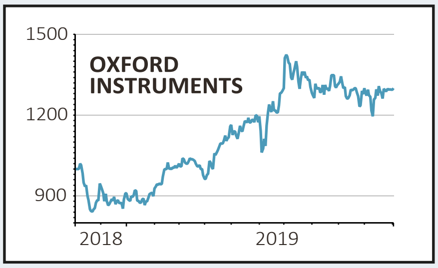
We appreciate this may be a tricky industry for investors to understand without a firm grasp of the natural sciences, but Oxford Instruments is an expert in many industries.

Its products, systems and tools are used to improve the quality and safety of food, design semiconductors, and to better understand geology in the mining and oil industries, among many other applications.

Squeezed customer budgets and poor sales execution made for a patchy performance in recent years but this is being addressed through 'Project Horizon', a programme designed to create a customer centric business model, with greater focus on commerciality.

OXFORD INSTRUMENTS
BUY
(OXIG) £13.60
Stop loss: £10.88

Market cap: £780m



Oxford Instruments is already making progress, as seen in better financial performance and winning greater confidence from the investment community. It is hoped that these measures will also leave the business with better earnings resilience to the industrial cycle than in the past.

But the job is far from complete, with analysts anticipating that Oxford Instruments can drive out extra efficiencies. 'Subject to short term global trade influences, we expect business metrics to continue to improve', says Shore Capital analyst Robin Speakman.

For the year to 31 March 2019, Oxford Instruments generated an operating profit of £49.7m (adjusted for continuing businesses only) on £333.6m of revenue. That works out at a 14.9% profit margin, versus circa 21% for closest peers **Halma (HLMA)** and **Judges Scientific (JDG:AIM)**. Speakman believes Oxford Instruments' profit margins can improve.

Many of the industries and applications targeted by the company are focused on mega-trends offering substantial growth potential over the long-run. Investors should also note that investment in research and development, all expensed through the profit and loss account, continue at a high level, sustaining competitive and technical leadership.

Data from Refinitiv puts Oxford Instruments on a forward 12 months price-to-earnings multiple of 18.6, versus 22.6 for Judges Scientific and Halma's 30.8. So you have an opportunity to buy a fascinating company with strong earnings growth potential at a much cheaper price than its pears.

By **Steven Frazer**
News Editor

4IMPRINT
(FOUR) £30.30

Gain to date: 54.4%
Original entry point:
Buy at £19.62, 7 February 2019

PROMOTIONAL PRODUCTS FIRM **4imprint (FOUR)** is enjoying positive share price momentum with a new trading update providing the latest catalyst.

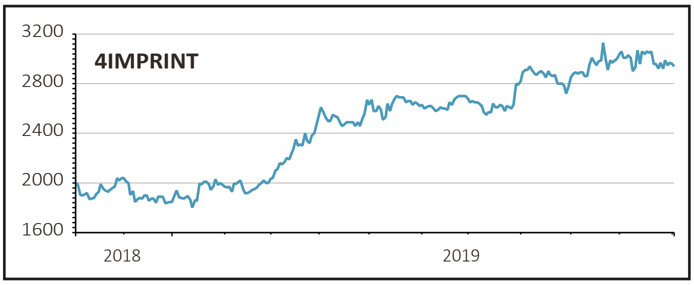
The company, which ascended to the ranks of the FTSE 250 in June, expects a 'strong full year trading performance, with revenue growth of around 16% over 2018'.

Demand in the second half has remained robust, with growth in both new and existing customer orders consistent with that seen in the first half. This suggests the company's recent investment in its own marketing is paying off.

The company also completed the expansion of the Oshkosh distribution facility, which became fully operational in September, within the original $5m capital budget.

As house broker WH Ireland observes, this will provide 40% more capacity for the group heading into 2020.

Although investors will be mindful of the company's US exposure, given it accounts for more than 90% of its business and there are growing fears over a slowdown in the world's largest economy, 4imprint still has less than 5% share of a market worth around $20bn. This suggests there is further opportunity to grow.



SHARES SAYS:
We will be keeping a close eye on any sign of a US slowdown affecting performance but remain positive for now.

COMPUTACENTER
(CCC) £13.67

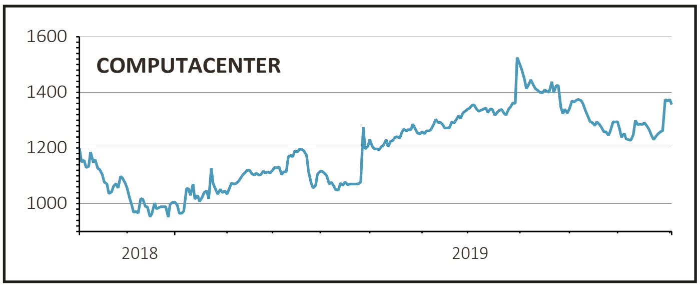
Gain to date: 13%
Original entry point:
Buy at £12.10, 2 May 2019

FTSE 250 IT reseller **Computacenter (CCC)** said revenue and profit in the third quarter were 'well ahead' year-on-year as it continues to enjoy firm demand from customers across its markets. This strong revenue and profit growth is drawn against tough comparatives from a year ago, so the latest performance is all the more impressive.

The share price has recovered much of the momentum lost during a weak September and October, when global slowdown concerns dominated investors' mindset.

Its basic software reselling operations drove the growth, which included a strong public sector performance in Germany, and a promising bounce in sales and profit in the US.

Computacenter is forecast to deliver 16% sales growth this year, equating to 11% growth in earnings per share to 79.1p per share. Achieving these numbers would be impressive for this mature business given the economic backcloth. There could also be a special dividend on offer. Its full-year results are expected to be published in March.



SHARES SAYS:
A 12-month forward price-to-earnings multiple of 16.4 remains inexpensive for a business of its stature. Keep buying.

EUROMONEY

(ERM) £13.78

FANTASTIC STOCKS FOR 2019

Gain to date: 17.6%

Original entry point:

Buy at £11.72, 20 December 2018

A YEAR-END TRADING update has provided a timely reminder of why we are positive on media group **Euromoney (ERM)**.

On 5 November the company said full-year results would be slightly above its previous expectations, driven by growth in its pricing, data and market intelligence segment.

Sales are expected to be around £401m versus the analyst consensus forecast of £397m. The full year dividend is expected to be 33.1p versus market expectations of 32.8p.

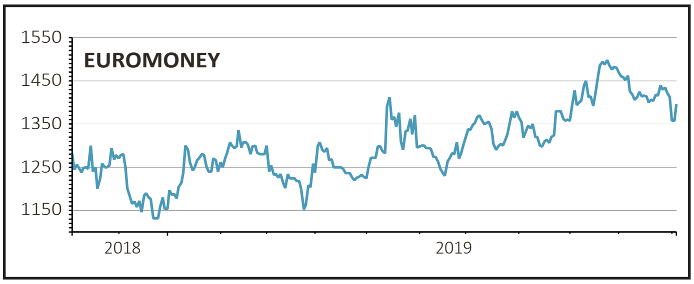
This is a high quality business which benefits from subscription-based recurring revenue and significant barriers to entry generated by Euromoney's high level of expertise.

The increasing focus on the data side is reflected in the current strategic review of the struggling asset management arm, which includes *Institutional Investor* magazine and the BCA investment research operation.

'While the overall asset management market is under pressure, these look strong and relatively unique assets,' says Numis analyst Steve Liechti about Euromoney's business division.

Analysts at Peel Hunt believe a sale is 'the most probable outcome' from this process. The proceeds from any disposal could be directed towards acquisitions to help accelerate growth in the rest of the group.

Results for the 12 months to 30 September 2019 will be published in full on 21 November.



SHARES SAYS: ↗

Keep buying.

SYNTHOMER

(SYNT) 287p

Loss to date: 13%

Original entry point:

Buy at 330p, 12 September 2019

A PROFIT WARNING from chemicals firm **Synthomer (SYNT)** has highlighted some of the pitfalls of investing in the sector and provided a reminder of the need for patience in investing.

In a trading update, Synthomer said the 'growing weakness in the global economy has created a more challenging backdrop' for the chemicals industry, resulting in a slower trading environment throughout the third quarter of its financial year.

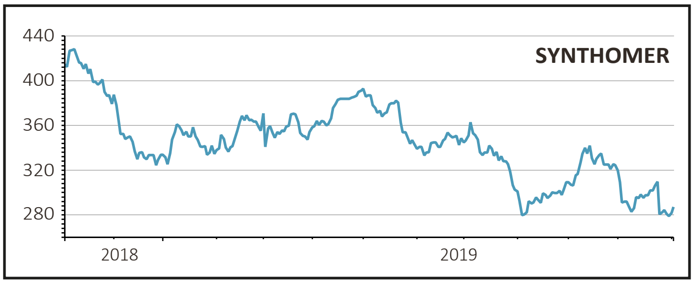
Given the wide-ranging uses for their products, chemicals companies are more exposed than many other sectors to wider macroeconomic situations, for better or worse.

The decline in Synthomer's share price reflects the direction of the global economy or at least where people feel it is heading.

But the long-term fundamentals for Synthomer remain the same. A deal to acquire US-based Omnova Solutions means the firm is on the cusp of global expansion as it tries to keep up with demand for its products.

According to Canaccord Genuity analyst Alex Brooks, Synthomer's underlying earnings are also growing faster than its peers, with the business now dominated by highly profitable speciality units.

In addition, the firm is one of just three major players in two European and Asian rubber markets, sectors where profit stability is much better now than in the past, according to Brooks.



SHARES SAYS: ↗

The long-term fundamentals remain unchanged. Stick with the shares.

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Allianz
Global Investors

The Merchants Trust PLC
a Value Investment Approach

THE MERCHANTS TRUST PLC
130
ALLIANZ GLOBAL INVESTORS

1889 – 2019

Simon Gergel
Head of the UK Equity team

We follow a value investment style at The Merchants Trust, aiming to buy high yielding shares when the share price is below our assessment of the company's intrinsic or fair value. We aim to generate a return from the dividends paid to investors, growth in earnings and also from a capital gain as the shares are revalued over time. The highest returns can come either when a company's prospects have been misunderstood in the stock market, or when it changes its business structure over a period. This can lead to a significant re-rating of the shares, compounding the return from an attractive initial dividend yield.

Two specific examples illustrate these two types of situations:

Royal Dutch Shell:
At the start of 2016, Royal Dutch Shell's shares were very lowly priced. A weak oil price had led investors to question the sustainability of Shell's dividend, and the shares were paying an unusually high yield. We thought the shares were not fairly reflecting Shell's tremendous asset base, and that investors were underestimating the company's ability to cut costs and capital expenditure.

Over the subsequent 3 years, firm management actions enabled Shell to deliver a substantial increase in efficiency and cash generation. Investor sentiment improved, as cash flow improved and the oil price recovered. Over these three years, including the substantial dividends that Merchants has received, the return from investing in Shell, one of the largest companies in the UK, was exceptional.

Shell was a case of a great investment opportunity hiding in plain sight. However, the second example is of a company going through a metamorphosis.

United Business Media:
For many years United Business Media (UBM) had been a media conglomerate, spanning several different activities. But by 2015 it had declared a strategy to be an "Events First" company, focusing on exhibitions and events. We believe that large exhibitions are excellent businesses that provide strong cash flow and can make very high returns for their owners.

Initially UBM was a modestly valued company. However, once the company had become focused on events and started to deliver steady profits growth, the share price responded to the improved prospects. Our returns as shareholders were

further boosted when another media company, Informa, launched a takeover bid for the company in early 2018.

Looking to the future, for where the next investment hits may come from, we are at a particularly interesting stage in the stock market. Many domestically focused companies are trading on modest valuations, due to investor fears of the potential impact of Brexit. Any resolution to Brexit could lead to a recovery in economic activity, and possibly an improvement in investor sentiment. This in turn could lead to a significant re-rating of these types of companies and attractive future returns for investors.

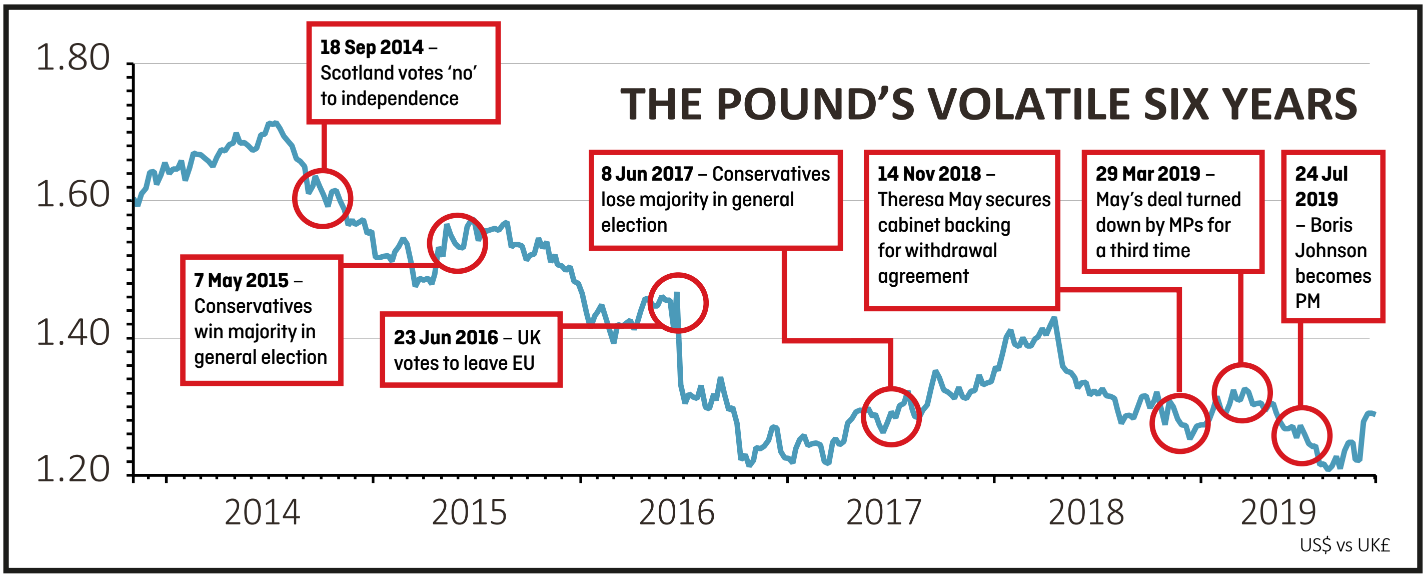
To discover more about The Merchants Trust, visit www.merchantstrust.co.uk where you can register for regular updates.

All sources Allianz Global Investors GmbH unless otherwise noted. This is no recommendation or solicitation to buy or sell any particular security. A security mentioned as example above will not necessarily be comprised in the portfolio by the time this document is disclosed or at any other subsequent date. **Investing involves risk. The value of an investment and the income from it may fall as well as rise and investors may not get back the full amount invested.** Past performance is not a reliable indicator of future results. The views and opinions expressed herein, which are subject to change without notice, are those of the issuer and/or its affiliated companies at the time of publication.

The Merchants Trust is managed by Simon Gergel who is head of the UK Equity team at AllianzGI and specialises in managing UK equity income portfolios. He is supported by a dedicated team of fund managers and analysts.

WHAT THE BIG VOTE MEANS FOR YOUR MONEY

By **Daniel Coatsworth** and **Tom Sieber**



Just as it looked like a short-term resolution to the Brexit saga was in sight, with a deal agreed with the EU and subsequently gaining early stage approval from MPs, a refusal by the same MPs to go along with Boris Johnson's timetable led him to put the legislation on pause and push for a general election.

Johnson, who, as a result, failed to deliver on his 'do or die' promise to deliver Brexit on 31 October, at least got his wish election-wise as initially the Liberal Democrats and Scottish National Party threw their support behind the idea and Labour followed in their wake. The outcome is a public vote on 12 December as the Brexit deadline is extended out to 31 January 2020.

It might not provide the immediate clarity craved by markets and the business world, but current polling implies the Conservative Party will secure a solid majority which should smooth the eventual passage of Brexit through the House of Commons.

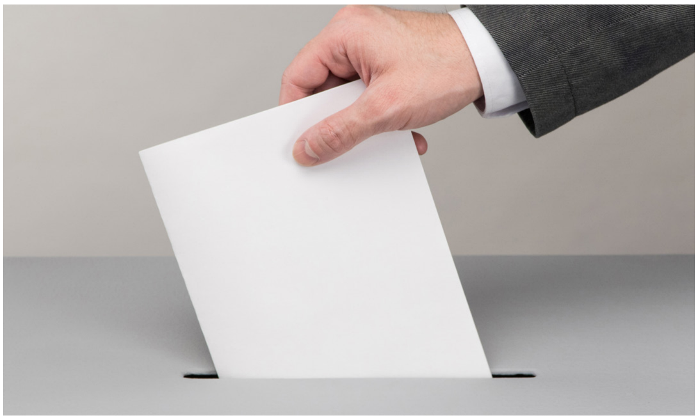
This explains why UK assets like sterling, gilts and real estate have largely taken the election news in their stride. That could change if the polls tighten and a hung parliament or even a Labour majority is perceived to be a more realistic prospect, with all the uncertainty that would bring.

WHY THE ELECTION MATTERS TO YOUR MONEY

In this article we look at what could happen to your investments, personal finances and more depending on the outcome of the looming election.

One point for investors to consider is that, even if the Conservatives prevail and complete the UK's withdrawal from the EU, the hard bit arguably begins with the task of securing a free trade agreement with the EU.

The current transition period ends in December 2020 and most people think getting an agreement will take longer. Any request for an extension to the transition would need to be submitted by June 2020 and Johnson has indicated an unwillingness to do so.



HOW THE LEADERS RATE

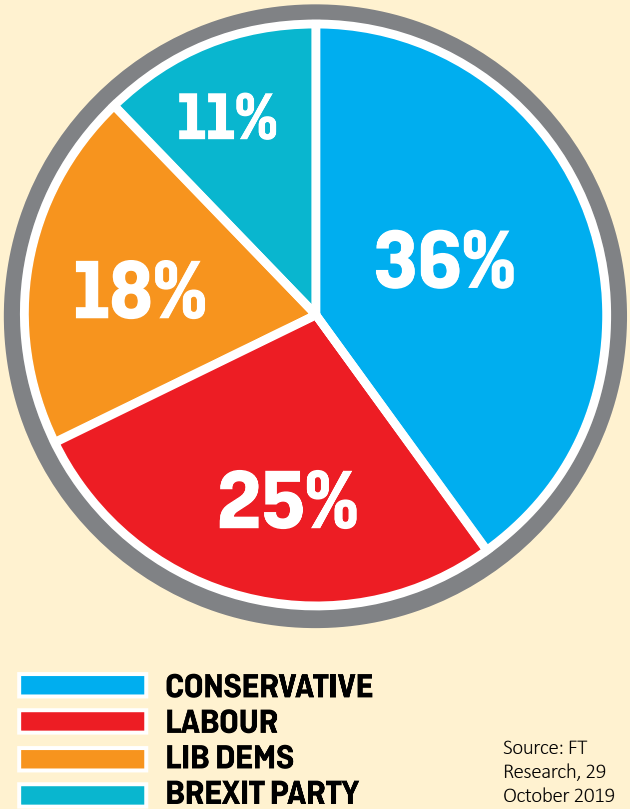
BORIS JOHNSON (CON) -16	**JEREMY CORBYN (LAB) -50**	**JO SWINSON (LIB) -24**

Net favourability rating*
*Total favourable minus total unfavourable excluding don't knows

Source: YouGov, 24 October 2019

WHAT ARE THE POLLS TELLING US?

On 29 October the *Financial Times* poll tracker, which collates and derives a weighted average from a range of published polls, gave the Conservative Party a clear lead.



Source: FT Research, 29 October 2019

The vast majority of polls have given the Conservatives a double-digit advantage. Before you think a Conservative majority is nailed on, consider that pollsters have consistently been wrong in calling the big votes in recent years and there are several reasons why the result is unpredictable.

First, plenty can change over the course of an election campaign. In 2017 Theresa May's government enjoyed an even stronger lead over Labour before the polls tightened considerably and eventually she lost her majority.

The difference this time round is that Johnson is seen as a better campaigner than May and Jeremy Corbyn's personal ratings are the worst on record for an opposition leader – not helped by an anti-semitism scandal in the party.

The other factor making the election hard to call is the volatility of the electorate which is no longer as attached to the main parties and look to be split along remain-leave lines.

FIVE BIG QUESTIONS

1. Will the election be about Brexit? If yes, this is probably good news for the Liberal Democrats and Tories as their positions are seen as being clearer (cancel Brexit, deliver Brexit respectively) than Labour's fence-sitting approach (negotiate a new deal, put it to a referendum). Labour will hope to fight the election on areas like the NHS and reversing austerity.

2. Will the Liberal Democrats take seats from the Conservatives in remain-orientated constituencies?

3. Will the Conservatives lose a large number of their 13 Scottish seats? Johnson is unpopular in Scotland and the country voted to remain in the EU across all council areas. But fans of the union might not vote for the SNP – which won 56 of the 59 seats in Scotland in 2015.

4. Can the Conservatives pick up seats in leave-voting traditional Labour constituencies? Theresa May failed to achieve this in 2017. There remains strong aversion to voting Conservative in many of these areas which could make them hard to crack. There is potentially a greater willingness to vote for the Brexit Party which doesn't carry the same baggage.

5. How many seats will the Brexit Party stand in? It won the biggest share of the vote in the European elections in May but Johnson's harder stance on Brexit has hit its polling numbers. If, as promised, the party puts up a candidate in every constituency then it could split the leave vote and impact the chances of the Conservatives winning seats from Labour. But suggestions it might target a much smaller number of seats where it feels it has a strong chance would be a significant bonus for Johnson and the Tories.

TWO REFERENDUMS UNDER LABOUR?

One of the Conservative Party's lines of attack in the election is that a Labour government would serve up two referendums in 2020.

If Labour is to take power it seems unlikely it will be able to do so by forming a majority and the price of forming a coalition with one of its likely partners, the Scottish National Party, may be a further vote on Scottish independence along with the second referendum on EU membership already promised.

Companies with exposure to Scotland, and which saw some share price volatility five years ago on the previous vote, include financial firms **Standard Life Aberdeen (SLA)** and **Royal Bank of Scotland (RBS)** as well as defence businesses with material operations north of the border like **BAE Systems (BA.)** and **Babcock (BAB)**.

HOW THE ELECTION RESULT COULD IMPACT STERLING, INVESTMENTS, TAX AND PENSIONS

THE POUND

If polling continues to point to a big Conservative win in the election then sterling will probably remain in a holding pattern until the results come in. Confirmation of a Tory majority would likely give the currency a short-term boost.

Bill Dinning, chief investment officer at Waverton Investment Management, comments: 'There are still many risks to sterling during an election campaign.

'Many of the issues that truly concern the electorate – the NHS, schools, student debt, housing shortages, general malaise about living standards – are seen normally as "Labour issues" by which I mean that opinion polls tend to indicate that Labour is seen as better at dealing with them.

'But we do not live in normal electoral times and the Labour Party's divisions are a headwind for the party which may diminish their traditional strength in those policy areas.'

If the election starts to move towards those issues and away from Brexit, and if that is reflected in the polls, then you would expect sterling to retreat.

Nigel Green, CEO of financial adviser deVere, says: 'Expect the pound and UK financial assets to be increasingly volatile in the run-up to the general election, given the wide-ranging set of outcomes.

'The most detrimental of these outcomes for sterling, UK financial assets and the wider British economy, include another hung parliament or a victory for Jeremy Corbyn's Labour Party.'

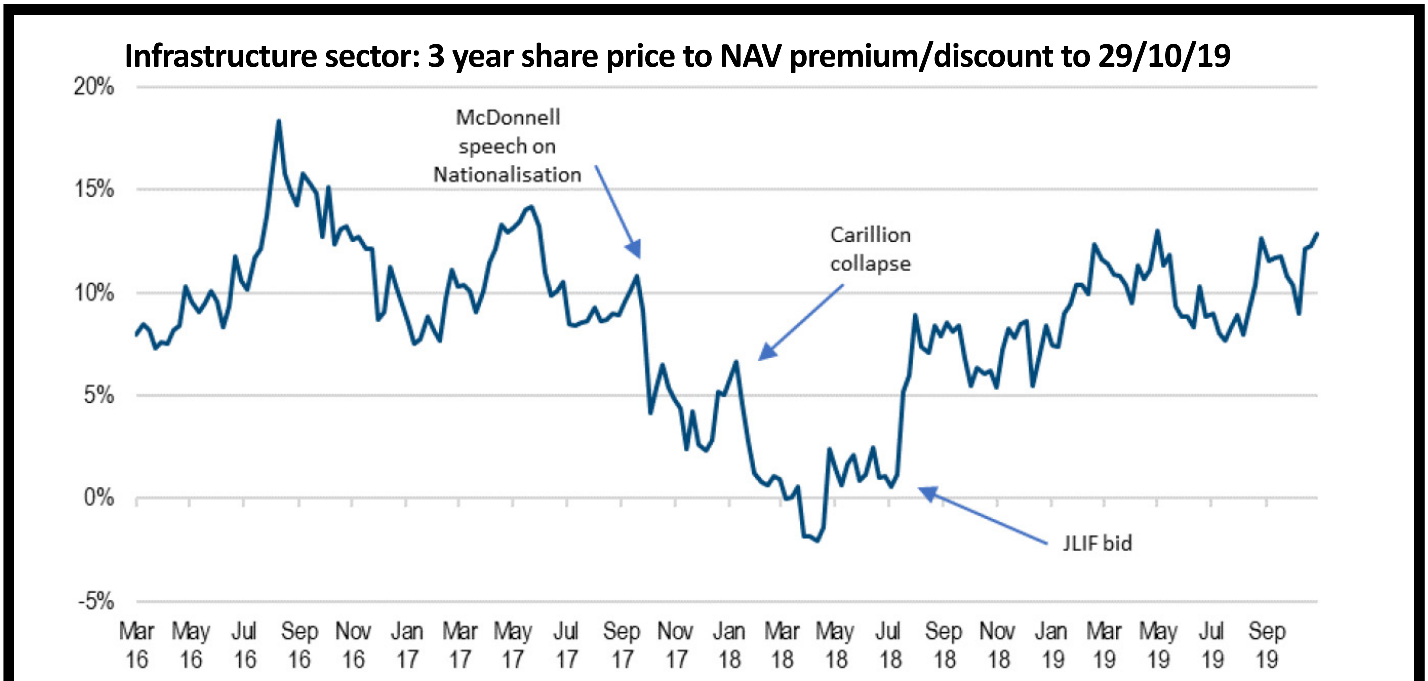
However, if Labour were to form a coalition and call a second referendum with remaining in the EU as an option, this could be positive for the pound in the long term, assuming it delivered a 'remain' result.

INVESTMENTS

The lead-up to an election could potentially benefit media group **YouGov (YOU:AIM)** which is best known for polling. The results this time round could be very close to call and so YouGov is likely to be in hot demand to constantly measure how the public is thinking ahead of the big vote.

In normal circumstances, **Royal Mail (RMG)** would pick up more work from an election as political parties seek distribution for their campaign literature. Postal votes would also give Royal Mail a boost but the big question mark is whether strike action threatened by members of the Communication Workers Union would disrupt the business at a crucial time.

Failure by Labour to get elected could trigger a big rally in several different parts of the stock market as a sigh of relief by investors, given how many Labour-related policies have already been priced in to many sectors.



Source: Datastream, Stifel annotation

HOW LABOUR HAS WEIGHED ON SHARE PRICES

Jeremy Corbyn has previously threatened to renationalise the utilities sector which has weighed on the price of shares in numerous electricity, gas and water providers and has fed through to parts of the investment trust infrastructure space. These funds are exposed through private finance initiatives (PFI), where public sector projects are delivered by the private sector, and through direct exposure to infrastructure assets or utilities themselves.

Removing the threat of Labour meddling with the sector could make the utilities space far more exciting to investors than it normally is. By extension it could also see many infrastructure-related investment trusts trade on higher premiums to net asset value as more investors could feel comfortable paying up to access a stream of dividends backed by long-term cash flows.

Investment trusts **HICL Infrastructure (HICL)** and **International Public Partnerships (INPP)** are considered to be among the most exposed to projects that could be negatively impacted by Labour's plans, so a defeat for Corbyn could see those funds experience a notable relief rally.

The reverse of this situation, namely Labour getting in power, would naturally be negative for the utilities sector as well as the transport industry where Corbyn has also threatened change.

However, there remain big questions over how Labour would fund a large renationalisation plan. The Confederation of British Industry initially put the cost of such a scheme at £196bn but subsequently admitted that might have been over-exaggerated.

LABOUR'S TAX PLANS

Labour getting into power could be negative for all UK companies as it wants to raise corporation tax from 19% (or 17% from April 2020) to 26%. Two years ago Corbyn vowed to introduce an excessive pay levy which would require companies to pay a levy of 2.5% for individual staff earning more than £330,000, increasing to 5% for earnings above £500,000.

The party has also floated the idea requiring companies with more than 250 employees to transfer annually at least 1% of their ownership into an inclusive ownership fund controlled by workers, up to a maximum of 10%. These shares would not be sold or traded, thereby reducing a quoted company's stock liquidity.

Workers would get dividends up to £500 a year with any surplus from dividends paid into a national fund to be used for public services and welfare. Labour has estimated the cost to business would be £2.1bn a year, however many British firms are unlikely to welcome such measures and, in a worst case scenario, such a policy could result in them moving their stock market listing overseas.

TORIES TO PROVIDE MORE CERTAINTY?

A Conservative majority outcome would likely give sterling a boost and therefore provide a lift to UK domestic companies on the stock market and the FTSE 250 index.

Investors want to know what's going on with Brexit and having a Conservative majority would remove some of the uncertainty. While many people might not like how Brexit will play out, at least they would have a better idea of what to expect with a Conservative majority government and clarity is what really matters to the markets in the short term.

But a hung parliament result could put the market is disarray once again and weigh on sterling as well as banks and housebuilders in particular as these sectors are often seen as proxies for the UK economy and barometers for Brexit. Investors may start to panic about more deadlock which could lead to further chaos on the markets.

WHAT COULD HAPPEN IF LABOUR WINS?

- Potential weakness in the utility, transport and infrastructure sectors
- Businesses could clash with Labour over tax and employee ownership plans
- Expect general stock market weakness in the short-term

WHAT COULD HAPPEN IF CONSERVATIVES WIN (WITH A MAJORITY)?

- The pound could rally
- UK-focused companies could surge in value, particularly banks, housebuilders and businesses serving consumers such as leisure groups, retailers and supermarkets
- Stocks previously marked down for Labour Party-specific fears could rebound

WHAT COULD HAPPEN IF THERE IS ANOTHER HUNG PARLIAMENT?

- The pound could fall
- UK-focused companies could drop in value
- Investor and business sentiment could wane

INCOME TAX

The Conservatives want to hike the point at which the 40% income tax rate kicks in, from £50,000 to £80,000 in England, Wales and Northern Ireland, which represents a 60% hike. The move would affect around 4m people, and the highest earners in that group would get an extra £2,500 each year.

Labour wants to bring more people into the 45% tax bracket, reducing the threshold at which you start paying it from £150,000 down to £80,000. It wants to introduce a 50% tax rate for those earning over £123,000, in a move that could raise billions for the public purse, but cost the highest earners the most.

INHERITANCE TAX

Labour has pledged to scrap the current inheritance tax system and instead cap the amount everyone can receive in inheritance across their lifetime at £125,000. Any gifts received above this level would be taxed at income tax rates.

The Conservatives also seems to be thinking about making changes to the inheritance tax system with Chancellor Sajid Javid saying 'it is on his mind' at a recent event. According to reports, he believes there is an issue with people who have already paid tax through work or investments having to pay tax again.

'Javid has already said he is a fan of simplified taxes, and as the Government has already commissioned the Office for Tax Simplification to carry out a review of inheritance tax simplification, it seems a likely area of focus,' says Laura Suter, personal finance analyst at AJ Bell.

THE PROPERTY MARKET

Boris Johnson has talked about cutting stamp duty on all homes worth £500,000 or less, in a bid to stimulate the property market.

First-time buyers already get a stamp duty break as they pay nothing on the first £300,000 if they buy a property worth £500,000 or less. But Johnson's plan is to extend this to all buyers and increase the tax-free limit to £500,000. The move would save first-time buyers up to £5,000 and all other homeowners up to £15,000.

Labour is in favour of scrapping stamp duty for homes people will live in themselves and to abolish council tax and replace it with a new 'progressive property tax', based on property values.

This would also be payable by landlords rather than tenants, which would put money in the back pocket of anyone renting, and hiked for second homes, empty homes or those owned by non-domiciled residents. The capital gains tax rate for second homes or investment properties would increase too.

Labour has also floated the idea of allowing tenants to buy their homes from private landlords, possibly at a discount to the market rate.

INTEREST RATES

This is a tricky one. Interest rates will be heavily influenced by how Brexit plays out and it is impossible to make any predictions now.

Fundamentally a messy Brexit could hurt the economy, meaning the Bank of England may have to cut rates to stimulate investment and spending. But a better than expected Brexit situation could boost economic activity, at least in the short term. The Bank of England may only seek to raise rates if the economy looks like it is overheating.

Ketish Pothaligam and Peder Beck-Friis, portfolio managers at fixed-income specialist Pimco, are sceptical that any bounce in investment once there is clarity on Brexit will be 'long-lasting, sharp and meaningful'.

They say UK growth will continue to be shaped by global developments. 'Over the medium term, Johnson's Brexit deal would likely lower UK potential growth somewhat, exacerbating the country's already weak productivity profile.'

PENSIONS

Pension policy is likely to be an area of focus for both parties for several reasons. Firstly pensioners tend to vote in large numbers and secondly an increasingly large chunk of the population have more direct experience of retirement saving outside of the state pension thanks to auto-enrolment in workplace schemes.

Labour might campaign on a platform of slowing or halting entirely Conservative plans to increase the state pension age – currently set to move to 67 by 2028 and 68 by 2039.

All parties seem likely to support the retention of the 'triple lock', which sees the state pension rise in line with the highest of average earnings, inflation or 2.5%.

Tax relief attached to pensions (paid as a top-up to contributions at the highest rate of income tax you pay) came at a cost of £38bn in the 2017/18 tax year. Labour seems the most likely to push for reform in this area given pension tax relief is perceived to be more advantageous to the wealthy.

Changes wouldn't be brought in immediately and it is unusual for tax changes to be retrospective so it makes sense for now to continue to take advantage of the generous relief still on offer through a pension if you can.

McDonald's investors will be 'lovin' it' if its growth plans succeed

Doyen of high street quick eats, this is a powerful growth and income story

A man was walking along a busy shopping street with his six-year-old niece looking for a place to stop for lunch. They spotted a McDonald's and immediately the little girl reeled off the meal, drink and toy she wanted to have – no menu required, no eye-catching photos to prompt a decision, she just knew.

This is a true story and a pertinent illustration of the brand power and pervasiveness of the world's largest fast food chain. With more than 38,000 restaurants in 120 countries worldwide, some marketing experts believe the chain's 'Golden Arches' are more widely recognised than the Christian cross.

Earlier this year Forbes ranked McDonald's as the 10th most valuable corporate brand in the world, worth $43.8bn, and the fourth most prized non-technology business.

FRANCHISE POWER

McDonald's owns and runs around 2,600 of its outlets itself. The remainder are franchises, where the company licences its operating model to franchisees in a profit share arrangement.

This means McDonald's can maintain oversight over its brand, retain quality control on its detailed food preparation processes while driving productivity improvements. At the same time gaining meaningful economies of scale as well as providing centralised marketing and some administration.

> "With more than 38,000 restaurants in 120 countries worldwide, some marketing experts believe the chain's 'Golden Arches' are more widely recognised than the Christian cross"

RECENT TRADING

In October the maker of the iconic 'Big Mac' reported third quarter earnings per share (EPS) of $2.11 on revenues of $5.43bn. This fell modestly short of analyst estimates pitched at $2.21 EPS from $5.5bn revenue, although the company added that its global same-store sales were up 5.9% during the period, beating the 5.6% forecast.

This is the 17th consecutive quarter of positive like-for-like income.

Near-6% underlying sales progress for a mature business in a global economy showing lacklustre growth at best is no

CEO FIRED

Don't panic about Steve Easterbrook being fired as chief executive last weekend after he broke company policy by dating an employee. The company's growth strategy is unlikely to change as his replacement, Chris Kempczinski, had been the boss of McDonald's US operations and he sees the value of embracing digital technology and home delivery in much the same way as his predecessor.

mean feat, yet investors gave the third quarter update the cold shoulder.

Its share price fell more than 5% from $209.85 to $199.27, and nudging lower still over the following days to $196.70.

This leaves the stock trading on a 2019 price-to-earnings (PE) ratio of 25.3, based on the $7.76 EPS analysts expect the company to report for the full year to 31 December.

McINCOME: LONG HISTORY OF RISING DIVIDENDS

YEAR	DIVIDENDS ($)
1999	0.20
2000	0.22
2001	0.23
2002	0.24
2003	0.40
2004	0.55
2005	0.67
2006	1.00
2007	1.50
2008	1.63
2009	2.05
2010	2.26
2011	2.53
2012	2.87
2013	3.12
2014	3.28
2015	3.44
2016	3.61
2017	3.83
2018	4.19
2019	4.73

Source: McDonald's

> "Has an unbroken 42-year record for growing its annual pay out to shareholders stretching back to 1976"

The stock is now trading on a next 12 months PE of 23.4, about a 7% discount to its peers (Starbucks, Wendy's, Yum! Brands etc).

VALUATION VERSUS PEERS

Measured versus its peer group McDonald's stands on an enterprise value-to-earnings before interest, tax, depreciation and amortisation, or EV/EBITDA for short, of 17.4 versus the average of 17; a price-to-cash flow of 18.3 against 19.1; and the equivalent dividend yield is 2.6% against 1.9%.

Even at $196.70 the stock has performed strongly over the past year, rallying nearly 12.5% versus the S&P 500's 10.9%. The stock has more than doubled the return of the S&P over two, three and five-year periods. As recently as August McDonald's shares were trading at record highs of $221.15, for a 2019 PE of 28.5.

So while third quarter same-store growth figures were impressive, it is understandable that the headline revenue and earnings misses caused a loss of momentum given it was trading on a high rating.

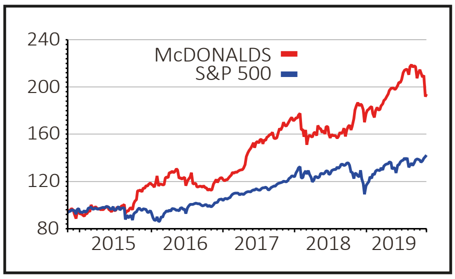
TRACK RECORD

McDonald's remains a reliable dividend grower. The company has an unbroken 42-year record for growing its annual payout to shareholders stretching back to 1976.

McDonald's also performed strongly through the hefty sell-off in global equities a year ago, rallying around 10% in the early October to mid-December 2018 slump. During the same period the S&P lost 500-odd points, or about 17% of its value, arguably signalling the stock's relative stability and resilience in the face of short-term market swings.

NEW LOOK STORES

If you've not been in to a McDonald's for a long time you may still picture them as grotty little places with cheap plastic furniture, long queues of hungry customers being very slowly



served by bored staff.

This is not really the case today. Restaurants have been refitted, brightened up and dragged into the 21st Century.

The growth strategy has positioned the business for the future with free customer wi-fi, phone charging points, self-order kiosks and curb-side pick-up through mobile app ordering.

McDonald's has been providing home delivery in many markets for some time, via its exclusive deal with Uber Eats, and it is also testing meat-alternative products, which could bolster its social cachet with healthier-eating and ecology-mindful millennials, one of the chain's longer-run challenges, according to critics.

McDATA DRIVE

Perhaps the most surprising and ambitious shifts McDonald's has been making is in technology and data analytics. In September it agreed to buy Apprente, a start-up that is designing and building conversational robots that can automate voice-based ordering in multiple languages.

This should be a neat fit for McDonald's fast food drive-thru business, which had already been testing Apprente's technology in selected locations, creating voice-activated drive-thrus that it said will offer 'faster, simpler and more accurate order taking'.

McDonald's says the

technology could also be used in mobile and kiosk ordering, which could help speed up the ordering process.

The Apprente deal followed the $300m purchase of online personalisation start-up Dynamic Yield earlier this year, with the goal of creating a drive-thru experience that's customised based on factors like weather and restaurant traffic.

It has also invested in mobile customer engagement app company Plexure as part of its wider McD Tech Labs initiative, aimed at assessing new tech trends and apps, and perhaps even designing products itself.

FAST EATS THE SLOW

The end goal is to drive further growth in revenue and profit.

Challenges could come from many directions given the maturity and consumer-driven nature of the business. Rising unemployment in a slowing economy would presumably take its toll. McDonald's remains one of the world's largest private sector employers so any minimum wage hikes will pinch.

Competition is always fierce from the likes of Burger King and Kentucky Fried Chicken, among many others.

There are also several challenger brands on the market that could steal market share, such as Five Guys, Shake Shack and In-N-Out Burger.

And there is potential for fallout as the voices of environmental activists and anti-meat groups gets louder. McDonald's is one of the largest buyers of beef in the world.

Yet McDonald's has faced these challenges in the past and bounced back. It serves a need in its markets for consistent and affordable fast food. Its feats of endurance also reflect its strong financial position.

It is expected to have about $33bn of net debt on the books by the end of 2019, but is also forecast to deliver around $5.5bn of free cash flow this year.

Morningstar analysts estimate that free cash flow could average 33% of revenue over the next five years, comfortably paying dividends that could grow 10% a year over the next three years.

SHARES SAYS: ↗
McDonald's is a solid company to buy for the long term. Use the current discounted share price rating as a good entry point. Buy at $196.70

By **Steven Frazer**
News Editor

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Asset Management

INVESTING IN US EQUITIES LATE IN THE CYCLE

Football managers and investors may think alike – they want both value and growth. Value could be solid, reliable players while growth represents the stars of the future.

Several metrics are used to characterise a stock as value or growth, such as the price-to book (P/B) ratio, 12-month forward price-to-earnings (P/E) ratio, dividend yield, and short and long-term earnings and sales growth.

Value stocks—the steady players—have a lower P/B, a lower P/E and a higher dividend yield than the market average.

In periods of rapid technological innovation or disruption, growth stocks will tend to tempt investors. Rapid technological change and cheap starting valuations for growth stocks after the financial crisis have proven particularly potent for growth stocks for much of the current market expansion.

Value stocks tend to outperform when the economy is in a more difficult phase. Their lower valuation means they tend to fall by less than more expensive growth stocks during a bear market, and their higher income often offers a buffer for total returns.

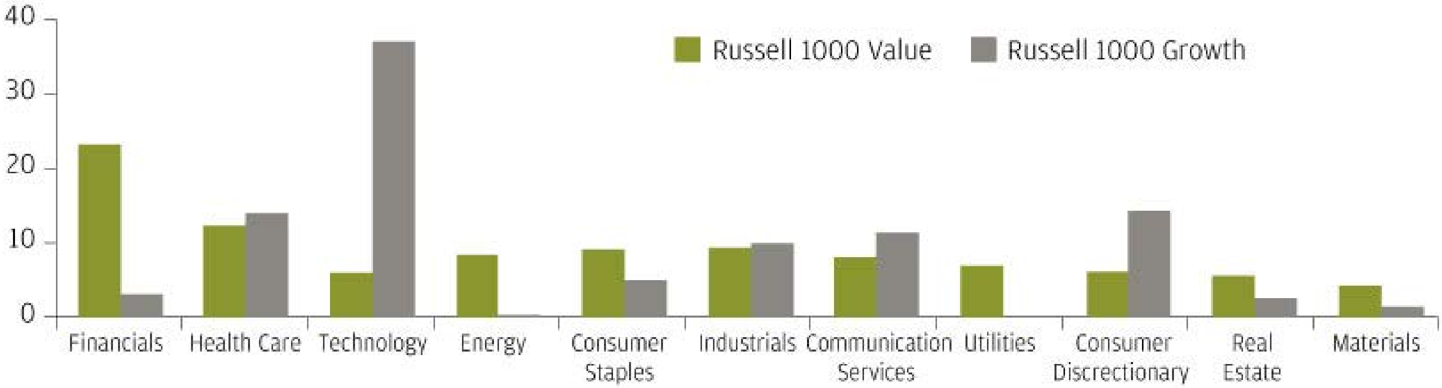
Value also often outperforms in the early stages of a recovery. This is in part due to the high weighting of financials in value indices. The early stage of the cycle normally benefits the financial sector because banks borrow at short-term interest rates and lend at longer-term interest rates, which means a steeper curve increases their future profitability.

Value stocks significantly outperformed from 2000-2007, following the prior period of significant growth outperformance during the dot-com bubble of the late 1990s.

Given the advanced nature of the cycle, and the relative pricing of growth and value stocks, investors may wish to consider adding a carefully selected group of value stocks to a portfolio.

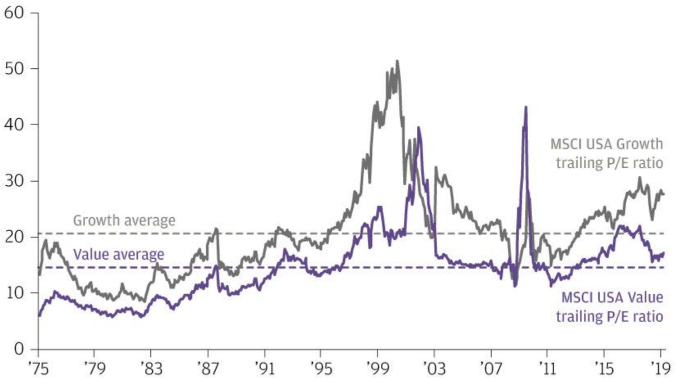
In previous downturns, and indeed during the

RUSSELL 1000 VALUE AND GROWTH SECTOR WEIGHTS



Source: FactSet, Russell, J.P. Morgan Asset Management. Past performance is not a reliable indicator of current and future results. Data as of 30 September 2019.

MSCI USA VALUE AND GROWTH PRICE-TO-EARNINGS RATIOS



Source: MSCI, Refinitiv Datastream, J.P. Morgan Asset Management.
Trailing P/E ratio is calculated using earnings per share for the last 12 months.
Past performance is not a reliable indicator of current and future results.
Data as of 30 September 2019.

correction in the fourth quarter of 2018, value stocks fell less than the overall market and outperformed growth stocks. The exception to this rule was the financial crisis, but a repeat of a financials-led downturn seems unlikely given banks are now more highly capitalised and have less leverage than 10 years ago.

However, growth stocks are perhaps unlikely to underperform to the extent that we saw following the 1990s tech boom. In our view, structural tailwinds persist from the potential for further rapid technological advancement and disruption, while valuations for some growth stocks have come down significantly.

When it comes to size, in attack, the smaller, more agile, players are often the most skilful, and those you turn to when you need to build a lead. However, when defending a corner in the later stages of the game, you want your larger players on the field. Likewise, while small cap stocks often perform well in rising markets, larger companies tend, on average to be more defensive and resilient during a downturn.

As we near extra time in this expansion investors may wish to turn increasingly towards their more steady, resilient and experienced players, the large cap value stocks, to close out the game. At the same time, it's important not to lose sight of the long term, and to keep a selection of growth players on the bench for the future.

> "Investors may wish to consider adding a carefully selected group of value stocks to a portfolio"

But not all the more experienced, cheaper players are a bargain. Only the quality ones with lots of life left in them— those that are not struggling to compete with a younger star player in their position and aren't worn down by past excesses from their partying days—will complement the team. Low quality stocks with high debt burdens or challenged business models tend to struggle during a downturn.

A team consisting of only young, smaller, expensive players could struggle against a more balanced mix of youth and experience as the final whistle approaches. And given the more balanced team is less expensive, it seems like a less risky option at this stage in the cycle.

Will UK banks struggle like their Japanese counterparts?

Why central bank policies are hurting the sector

By **Russ Mould**
AJ Bell Investment Director

The third quarter results from the FTSE 100's 'big five' banks generally got a cool reception, not least because of fresh payment protection insurance (PPI) compensation claims and other assorted legal and conduct costs of £4.6bn.

As a result, the FTSE All-Share Banks sector is down by 0.4% in 2019 to date, when the FTSE All-Share is up by 9.4%. That leaves the banks ranked just 32nd out of the 39 industrial groupings which make up the index.

But the malaise runs deeper than PPI and (mis) conduct fines. They have only added to the UK-based banks' deep-rooted challenges where the market is mature, competitive and tightly regulated.

Throw in a grinding drop in interest rates, bond yields and credit spreads and you have a rotten environment for banks, as their share prices over the past decade will attest, even after the hard work to cut costs and rebuild balance sheets.

The question now is whether this environment is going to change. As the source of the crisis that engulfed markets 12 years ago, investors want to see the banks doing well, as that would help to provide a firm footing for the wider economy, whose wheels would be greased by the credit they provide.

Healthy banks would help the stock market too, since consensus analysts' estimates suggest that the sector will provide 17% of the FTSE 100's total pre-tax profit for 2020 and 16% of its dividends.

FTSE 100 BANKS HAVE BEEN A POOR PICK OVER THE PAST DECADE

	10-year total return	10-year capital return
Barclays	-27.6%	-43.6%
HSBC	46.6%	-13.5%
Lloyds	21.9%	-2.0%
Royal Bank of Scotland	-42.4%	-49.3%
Standard Chartered	-34.1%	-49.1%
FTSE All-Share	**122.0%**	**54.5%**

Source: AJ Bell, Refinitiv, to 1 November 2019

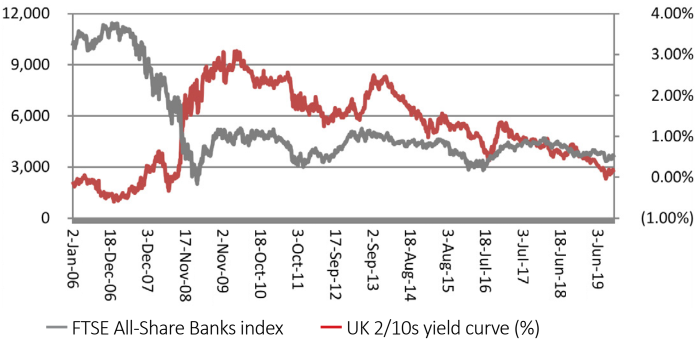
MANGLED MARGINS

Banks raise money at one interest rate, through deposits or borrowing, lend it out at another and pocket the difference while (hopefully) getting their money back once the loan matures to start the process again. The result is the net interest margin on the loan book and this is a key measure of profitability.

The bad news is margins are under pressure, for three reasons. Interest rates have gone to near zero or even gone negative in some areas. The yield curve has flattened and credit spreads have been compressed.

All three can be seen as an (unintended) consequence of central banks' low interest rate or negative interest rate policies. The chart may not be totally conclusive (investors must also accept that correlation does not mean causation) but the steady flattening of the yield curve in the UK, as benchmarked by the gap between two-year and 10-year government bonds, does seem to be weighing on the share price performance of the FTSE All-Share Banks sector.

ERA OF QUANTITATIVE EASING AND LOW INTEREST RATES IN UK LOOKS TO BE HURTING THE BANKS



Source: AJ Bell, Refinitiv

TURNING JAPANESE

Since its own debt-fuelled property and stock market bubbles burst in 1989, Japan has tried to reinflate valuations and stoke both growth and inflation with negative and low interest rates and quantitative easing policies, with mixed results.

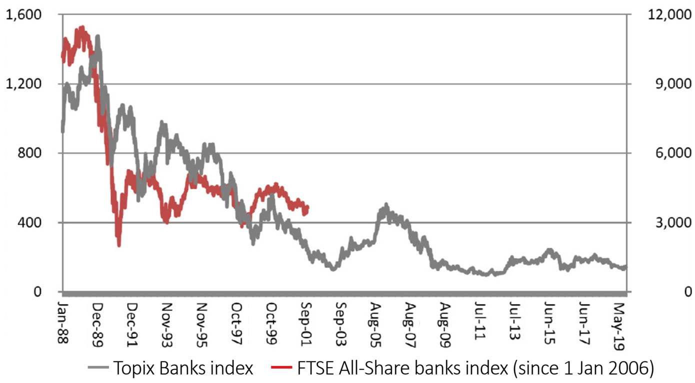
The very fact that the Bank of Japan is still hard at it after nearly three decades hardly smacks of success. Worse, the gradual compression of the same yield curve in Japan looks to have done huge harm to the country's banks.

The Topix Banks index is down by 90% since its all-time high. By comparison the FTSE All-Share Banks index languishes some 69% below its peak. If history repeats itself – and that remains an *if* – then things could get worse for the UK banks before they get better.

The final graphic shows the performance of the Topix Banks index from two years before it peaked to today. It then overlays the performance of the FTSE All-Share Banks index starting on 1 January 2006 – two years before the financial crisis really hit – and then runs it over the same time line as the Topix Banks benchmark.

This suggests that UK banks could fall further,

JAPANESE LESSON WARNS UK BANKS COULD FALL FURTHER



Source: AJ Bell, Refinitiv data

if a backdrop of easing and low rates persists or negative rates are introduced and the Bank of England fails to fire growth and inflation. The past is no certain guide for the future and value-hunting contrarians will note with interest the 270% rally in Japanese banks that ran from 2003 to 2006, when it seemed like Japan was finally breaking out of its deflationary debt trap.

That proved to be a false dawn. But it did show what could happen to 'value' financial stocks if sentiment changed and investors began to believe in inflation rather than fear deflation, so the UK's bank stocks could be a good way of judging whether the Bank of England is winning in its efforts to fuel inflation and fend off the spectre of deflation.

What's behind the new all-time high in US markets?

It is not enough just to look at the best performers, it's the largest stocks which make the difference

If you have just been reading the newspaper headlines over the last few months, it's been rather gloomy material in general – from increasing US-China trade tensions to fears over Brexit and slowing global growth.

And yet one of the most followed global indices – the S&P 500 – hit a new all-time high on 4 November at 3,078. How can we explain this apparent disconnect?

Both the US and European central banks have moved to a loosening bias in response to slowdown concerns, but this has only added to a feeling that growth is becoming more challenging.

And the feat of the S&P 500 in reaching a fresh peak is all the more impressive when you consider it was achieved without help from one of its biggest constituents, online giant Amazon, which actually fell over the last three months.

To get to the bottom of things, *Shares* has taken a closer look at the biggest movers in the S&P 500 over the past three months and analysed data from Bloomberg to find out the most significant contributors to the strength of the index, as well as the laggards which have held it back.

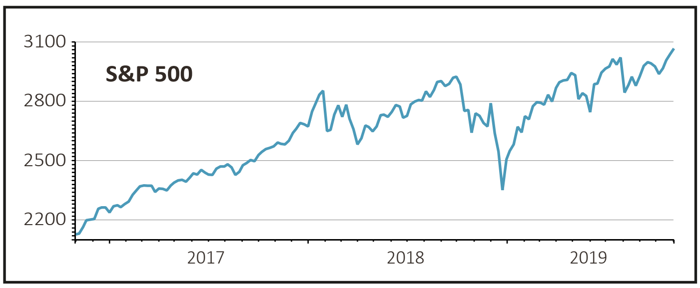
INDEX CALCULATION

The S&P 500 index is designed to represent 500 of the largest quoted companies on the US market. Each constituent company is weighted by multiplying the number of shares in issue by the share price.

The biggest three companies account for just over 11% of the index, while the largest 10 companies account for around 23% of the index, and the top 20 account for around a third of the index.

After that there is a long-tail, which is to say that outside the top 20 companies, there are 480 companies which are much smaller in size and need to move a lot more than the larger companies to have the same impact on the overall index.

For example if the price of the largest constituent, software company Microsoft, were to rise by 10% it would push the S&P 500 index up by 0.2%, while heavy equipment maker Caterpillar, still not a small company with a market capitalisation of $78bn, would have to rise by 74% to have the same impact on the index.



S&P 500 returns sorted by contribution. 26 July to 28 October 2019

	Company weight %	Total return %	Contribution to market return %
Market	**100.0**	**0.9**	**0.94**
Apple	3.8	20.3	0.73
AT&T	1.1	14.3	0.14
JPMorgan Chase	1.5	9.7	0.14
Home Depot	1.0	9.8	0.10
Intel	0.9	10.8	0.10
Microsoft	4.3	2.4	0.10
Procter & Gamble	1.2	8.3	0.10
Amgen	0.5	17.8	0.08
Nvidia	0.4	18.2	0.08
Abbvie	0.4	17.3	0.07

Source:Bloomberg

For a discussion on how a handful of stocks can drive the entire market read this article.

As we will see later, this aspect of the market structure is very instrumental in explaining why the market is hitting all-time highs.

We have separated the biggest movers from the biggest contributors in order to focus on what investors have been buying and selling.

BIGGEST MOVERS

The first thing that 'jumps out' of the data is the number of consumer goods companies which have done well. This begs the question, if the market is so worried about the economy, why would these types of business be in such demand?

Before we attempt to provide an answer, let's look at some of the best performing names.

The largest gainer, up 40%, was Newell Brands which is a consumer brands company that owns Paper Mate, Waterman pens and Sharpie. Target was up 27% and distributes household and beauty products and accessories. Nordstrom, up 26%, distributes clothing.

What links these companies together is that all of them are predominately domestic players and only Newell Brands has any overseas sales exposure, and even this is only around 30% of its business.

Other domestically-focused companies also appear on the leader board such as housebuilders Lennar, up 27%, and Pulte, up 24%.

Federal Reserve chairman Jerome Powell recently said 'global headwinds' outside the US were a key factor driving the central bank's more cautious stance. However, he was of the view that the domestic US economy remained strong with close to full employment.

What the data is saying to us is that investors appear to have taken Powell's message to heart and rejigged their portfolios towards more domestically positioned companies and away from overseas earners.

Another factor influencing investor preferences has been the strength of the dollar which makes overseas earnings less valuable when converted back to the local currency.

Two semiconductor companies also make the top 10 list; Lam Research and KLA, up 34% and 26% respectively. While both companies earn virtually all of their revenue and profit in Asia, they have reported strong earnings, beating analysts' estimates.

Lam Research is benefiting from strong demand in China for wafer fabrication equipment which helped it beat analyst estimates in its 24 October quarterly update. Its shares have almost doubled this year.

Align Technology, up 26%, operates in the medical equipment and dentistry sector and is also very domestically focused while it reported better than expected third quarter earnings on 24 October.

This impressive performance of the top 10 movers only explains 20% of the return of the index over the last three months. That is because collectively the list only adds up to less than 1% of the index.

Top 10 S&P total returns. 26 July to 28 October 2019

	Company weight %	Total return %	Contribution to market return %
Tiffany & Co	0.04	40.0	0.02
Newell Brands	0.03	39.1	0.01
Lam Research	0.13	34.1	0.04
Target	0.21	27.0	0.05
Lennar	0.06	26.6	0.01
Nordstrom	0.01	26.3	0.00
Kla	0.10	26.1	0.02
Align Technology	0.06	25.9	0.01
Pultegroup	0.04	24.3	0.01
Biogen	0.18	24.1	0.04

Source:Bloomberg

THE LARGEST CONTRIBUTORS

The picture changes radically when we focus on the companies that had the biggest impact on the index. Heavyweights Apple, JPMorgan and Microsoft rose by 20.3%, 9.8% and 2.3% respectively.

All three companies hit all-time highs recently and they are clearly leading the market into the same virgin territory. It's no coincidence that all three companies reported strong quarterly numbers in October, beating analysts' estimates.

> "Apple said that it expected $85bn to $95bn in sales in the current quarter"

On 30 October Apple reported revenue 2% higher year-on-year to $64bn in the fourth quarter to 28 September. Importantly the company said that it expected $85bn to $95bn in sales in the current quarter that ends in December, above analyst's consensus target of $87.5bn.

Microsoft also reported better than expected earnings on 23 October with revenue up 13.7% to $33.06bn. A week earlier, investment bank JPMorgan reported record investment banking fees and market share gains in consumer banking.

What may surprise some people is that the US stock market made a new high without any help from global online retailer Amazon, which had been leading the market for much of the past few years.

Amazon was the biggest negative contributor to the index shaving 0.3% from the market as its shares fell by 9% over the past three months. On 24 October the shares fell a further 8% after its fourth quarter numbers disappointed investors. The company forecast sales of $80bn to $86bn for the crucial holiday period compared with $87bn expected from analysts.

One final thought on interpreting new US market highs is to look carefully at the number of stocks participating in the rise. Generally speaking the more stocks, the better. Over the three month period under review, around half the index was in positive territory according to SharePad data.

THREE WAYS TO GET EXPOSURE TO THE US STOCK MARKET

iShares Core S&P 500 ETF USD Acc GBP (CSP1)

iShares is one of the largest providers of exchange traded funds (ETF) in the world and part of BlackRock, the world's largest investment manager. This product tracks the S&P 500 index for an annual charge of 7 basis points, the equivalent cost of £7 for every £1000 of investment. The fund invests in all the constituents of the index and employs a so-called index replication strategy. The fund size is $35.5bn.

Fundsmith Equity (B41YBW7)

Run by Terry Smith, the £18.3bn global fund has roughly 60% of its assets in large US names such as payments firm Paypal and software giant Microsoft, which combined represent around 12% of the portfolio. The fund is relatively concentrated with 27 holdings. The annual management fee is 1%.

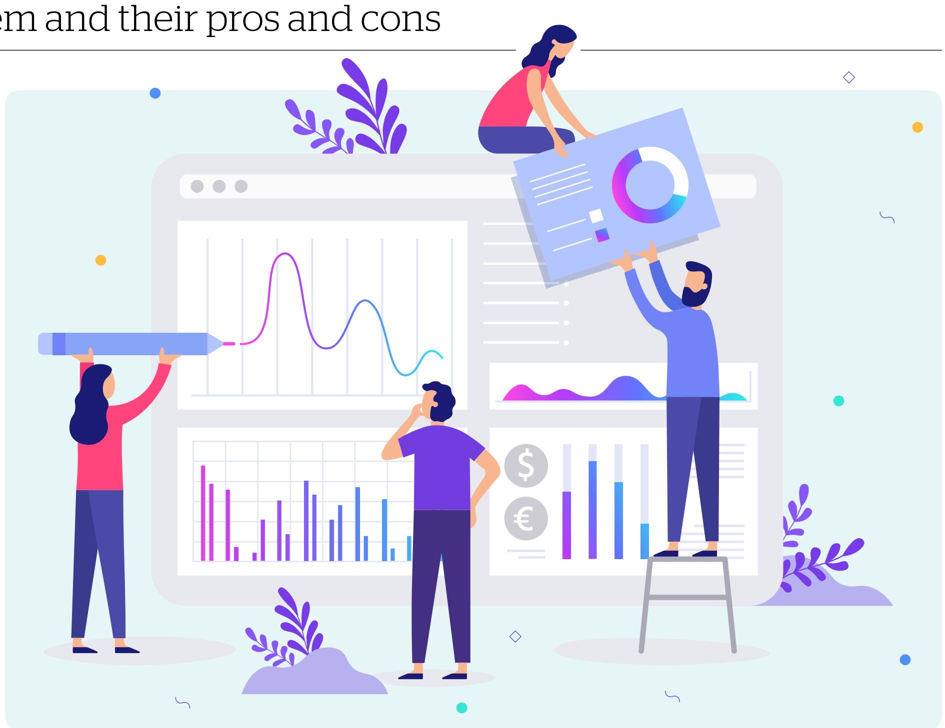
Scottish Mortgage Investment Trust (SMT)

The trust takes a long-term approach and attempts to identify the best companies in the world and invest in them for at least five years. An excellent long-term track record has resulted in the shares normally trading at a premium to net asset value, but the trust currently sits at a 2% discount, probably because of the poor performance recently of its largest holding Amazon. The trust has over 50% of its portfolio invested in the US market.

By **Martin Gamble** Senior Reporter

What are consensus earnings forecasts and why do they matter?

We explain where to find them and their pros and cons



The term 'consensus' is usually used to describe a broadly-accepted opinion or decision among a group of people. When applied to company earnings, it refers to the average of a collection of analysts' forecasts.

According to the efficient market hypothesis theory, made popular in the 1970s by economist Eugene Fama, market prices should reflect all available, relevant information including earnings forecasts.

If markets are efficient, Fama argued, it is therefore impossible to beat the market because there are no undervalued or overvalued stocks left.

Stocks with high earnings growth will be valued on an appropriately high multiple of profits, while those with lower earnings growth will be valued on a lower multiple of profits.

Fans of the efficient market theory will therefore tend to buy index funds and ETFs, because they believe you can't beat the market. On the other hand investors who disagree with the theory will try to pick out mispriced stocks on the basis that the information in the market – including analysts' earnings forecasts – can never be perfect.

HOW VALUABLE IS THE CONSENSUS?

In his book *The Wisdom of Crowds*, author James Surowiecki explored the idea that large groups of people are collectively smarter than just one or two experts.

This 'power of collective thinking' extends from problem-solving to decision-making and even predicting the future.

If his theory is right, putting together all the earnings forecasts of the top analysts, all using different tools and methodologies, should give you a fairly good idea of what a company's profits will be this year and next year.

Moreover, the narrower the consensus of forecasts, in theory the more confident the analysts are that they have got it right. That means in turn that you as an investor can have more confidence when trying to work out whether or not the shares are fairly priced for the potential earnings growth.

However, as Richard Oldfield explains in investment tome *Simple But Not Easy*, 'although there may be one or two outliers who predict something radically different from the average, most like to stick pretty closely to it for two reasons.

'First, they can't be ridiculed if their forecast is not much worse than anyone else's. Second, in many cases they are merely parroting the "guidance" about prospective earnings which companies give.'

For analysts, 'it is easier to repeat the company's forecast, with a little tweak here and there, than risk the isolation, with less information than the company has, of a radically different figure'.

HOW RELIABLE IS THE CONSENSUS?

When the economy is in a steady upward trend and background conditions are generally favourable, making forecasts is much easier than when the outlook is less certain, as it is today.

The problem, as Oldfield points out, is that even when conditions are favourable, companies themselves often make forecasts which turn out to be wrong.

The combination of a tight consensus of forecasts, led by the company, and a high valuation as investors buy into the story pushing up the share price, can result in an abrupt sell-off if – or more realistically when – the company has to lower expectations.

Recent examples of stocks where investors' hopes were met with a cold dose of reality include home-furnishings retailer **Dunelm (DNLM)** and food-on-the-go purveyor **Greggs (GRG)**, which both fell sharply after their respective managements dampened growth expectations.

THE MADNESS OF CROWDS

In the absence of a better alternative, investors have to rely on the consensus of analysts' forecasts as a guide to expectations of future growth.

Information provider Reuters provides, free of charge on its website, consensus estimates for sales and earnings per share (EPS).

For example, investors in global banking giant **HSBC (HSBA)** can click here and get a synopsis of the business, consensus sales and earnings forecasts for the current year, and various key statistics such as price-to-book value and return on equity.

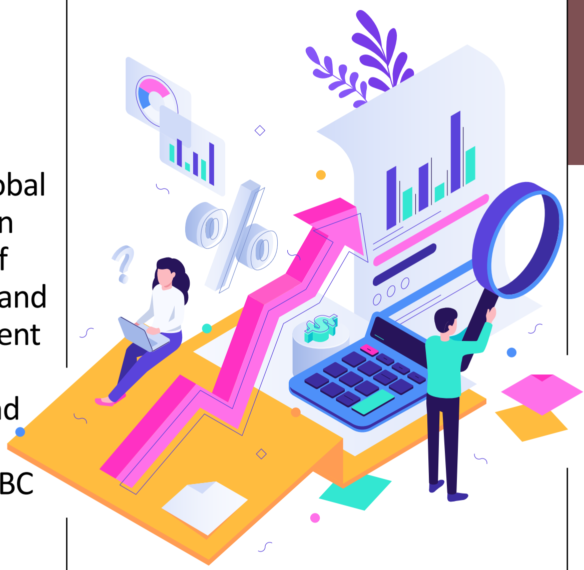
Investors can also go the HSBC website where the bank posts a list of analysts covering the shares and the latest consensus of financial estimates. Many other FTSE 100 companies have a similar section on their website, under the heading 'Investors'.

CONSIDER THE GROWTH OUTLOOK

When considering analysts' forecasts of future growth, it's important to consider for how

HOW CONSENSUS EARNINGS FORECASTS CAN HELP YOU AS AN INVESTOR

It is useful to look up the consensus earnings forecasts before a company issues their financial results. You can cross reference the information once the results come out and perhaps understand why the shares moved up (did the company beat the consensus forecast?) or move down (were the results below expectations?).



long growth is expected to stay at a given level. Any firm that grows faster than its peers or has higher margins will inevitably attract competition, leading to lower growth and lower returns. It is the nature of capitalism that money flows to wherever it can get the best returns.

A final word of caution comes from Burton Malkiel, author of the seminal *Random Walk Down Wall Street*. There are times when investors get overly enthusiastic about how long growth can continue, and stock prices end up discounting 'not only the future but perhaps even the hereafter'.

At the level of a single stock this needn't b e a major issue, as expectations can be re-set. When analysts and investors get carried away collectively and stop questioning the true earnings growth potential of stocks in general, it can lead to speculative stock market bubbles and eventually crashes.

By **Ian Conway**
Senior Reporter

Is the Government about to remove the lucrative Airbnb tax break?

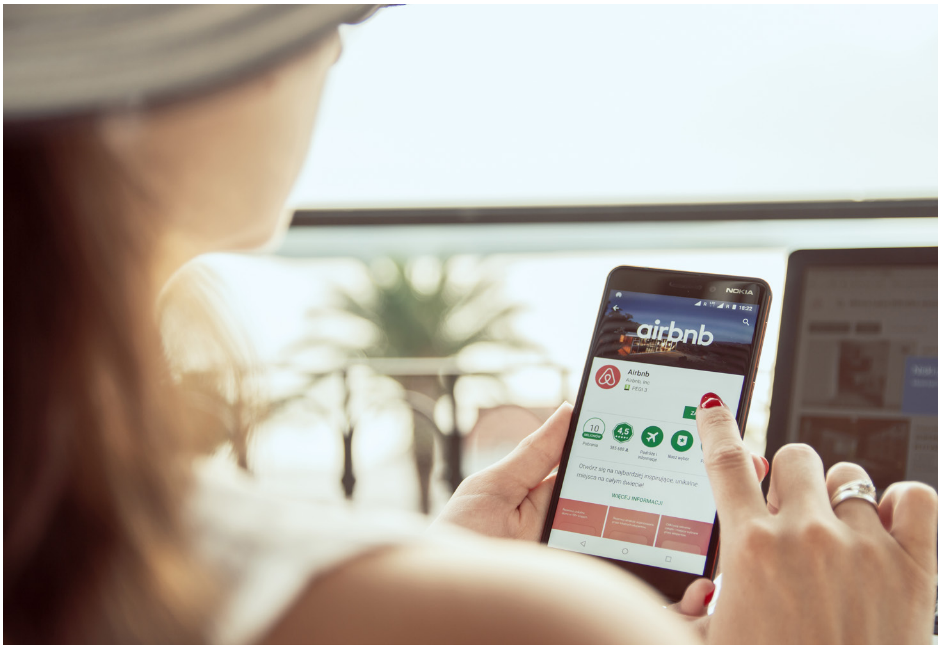
We explain the rules, why they might change and look at the cost of some unusual tax breaks

The Government could crack down on a lucrative tax break exploited by those using Airbnb and other home-sharing websites, as the cost of the giveaway has soared in recent years.

There has been a surge in the number of people using the rent-a-room relief, which allows you to earn money tax free by renting out your home. Government figures show there has been a near-50% increase in the number of people using the relief, from 150,000 in 2016/17 to 220,000 in 2017/18.

The Government has also had to upwardly revise its estimates of how much the tax break will cost the public purse – by more than 60%. In the Government's costings documents released in January this year, they expected the relief to cost £140m for

GOVERNMENT FIGURES SHOW THERE HAS BEEN A **NEAR-50%** INCREASE IN THE NUMBER OF PEOPLE USING THE RELIEF



2017/18 tax year, but instead the tax break cost £210m.

For the current tax year the Government originally estimated the tax break would cost £150m, but revised figures last month show it now thinks it will be closer to £230m – a 60% jump. It has predicted another increase next year to £240m.

HOW DOES THE TAX BREAK WORK?

Rent-a-room relief gives a tax break to individuals who let furnished rooms in their only or main home. It means that the first £7,500 a year generated in rent is tax free, rather than being taxed as income.

For a basic-rate taxpayer this saves £1,500 in tax a year, while for a higher-rate tax payer it saves £3,000 in tax a year, and an additional rate tax payer saves £3,375 a year.

The relief was introduced in 1992 to encourage people to take in a lodger and rent out their spare rooms, in order to boost available housing. It was never intended for people to make some quick cash by renting out their home for two weeks while they went on holiday.

In recent years it has been used increasingly by people who rent out their home on Airbnb, or other home-sharing websites, typically to tourists. Sometimes they will live in the property and just rent a spare room, but often they will rent out the entire property, such as while they are on holiday, or an entire second property.

PREVIOUS CRACK DOWN

The Government previously released plans to crack down on the use of this tax break by the army of people using Airbnb to make extra income.

It planned to bring in new rules that would restrict the broad application of the tax break. The change would have meant that people had to live in the property for at least some of the time during the period it was rented out.

By rewording the rules, this would stop people using the tax break when they were renting out a second property. It would also make it harder for people who wanted to rent out their entire home while they were on holiday, as they would have to live in the home alongside the renters for some of the time it was rented out.

The change was due to be introduced from 6 April 2019, but was scrapped as part of the rush to get the Finance Bill through parliament ahead of the last snap general election.

Since then the Government has been too focused on Brexit since to reintroduce the rules. However, the big spike in the cost of the tax break could mean it comes under the Government's radar once again.

RENT A ROOM RELIEF

	Previous estimated costs	New estimated cost
2013-14	£110m	n/a
2014-15	£80m	£80m
2015-16	£110m	£110m
2016-17	£130m	£130m
2017-18	£140m	£210m
2018-19	£150m	£230m
2019-20	n/a	£240m

Previous costs are from January 2019, updated costs from October 2019. Source: MMRC

WHICH UNUSUAL TAX BREAKS COST THE MOST?

The Government's documents on how much different tax breaks cost may appear like a dull long spreadsheets, but they include some weird and wonderful facts about lesser-known tax breaks that exist, and what costs the most.

Seafarers' earnings deduction

This tax break is estimated to cost the Government £260m in the current tax year. It's a tax break for people working at sea, outside of the UK. If you worked on a ship and were out of the UK for a year or more, you can get tax relief on your earnings.

Tax breaks on redundancy pay

This tax break costs the Government £600m each year. It gives those who have been made redundant the first £30,000 of any compensation pay tax free. This tax break doesn't count for holiday pay or payment in lieu of notice.

Professional subscriptions

People who have to pay fees and subscriptions to certain professional organisations each year may not realise they can claim the tax back – but only if it relates to their job. This tax break is estimated to cost the public purse £145m this year.

Small brewers relief

Lots of people have enjoyed the boom in micro-breweries in recent years, but not all realise these firms get a tax break, expected to cost £65m this year. It means breweries that produce less than 5,000 hectolitres (about 900,000 pints) a year get a 50% discount on beer duty.

Video games relief

Expected to cost £115m, this allows companies involved in designing, developing, testing and producing video games to apply for a corporation tax break. There are lots of these industry-specific tax breaks, including for companies involved in animation, TV dramas and children's TV programmes.

And the priciest tax break is...

VAT breaks on food

Expected to cost £18.9bn in the current tax year, this means no VAT is charged on most unprocessed food and cold food for take-away.

'How can I access £10,000 a year from my pension?'

Pensions expert Tom Selby explains the tax rules when you take money out of your retirement pot

If I had £100,000 invested in various investment trusts, income funds and shares and wanted to go into drawdown, how would I go about this?

Could I draw down £10,000 a year so that in any one year I have £2,500 tax-free for the first two months and pay tax on £7,500, paid in monthly instalments of £750 for the remaining 10 months of the year?
Anonymous

By **Tom Selby**
AJ Bell
Senior Analyst

If you want to keep your pension invested while taking an income in retirement, there are two income options you can choose: drawdown or taking ad-hoc lump sums.

If you commit or 'crystallise' all or some of your fund in drawdown, a quarter will be available tax-free and the remaining 75% taxed in the same way as income. Tax will only be applied when you take the money out of your pension.

If you don't want to commit your fund to drawdown you can instead take ad-hoc lump sums, with 25% of each withdrawal tax-free and the rest taxed as income.

With both options you can choose to set up regular payments to provide a steady income stream, or take a one-off withdrawal from your fund.

Turning to your specific example, it would be possible to achieve this outcome by crystallising £10,000 of your fund in drawdown.

A quarter of this amount (£2,500) could be released immediately tax-free, and you could then set up a £750 monthly payment from the remaining taxable portion (£7,500) of your crystallised pot.

However, before you do this there are a few things you'll need to consider.

First, while entering drawdown doesn't always mean you need to alter your investment strategy, you should still use it as an opportunity to evaluate the risks in your portfolio.

For example, someone following the approach you describe would likely put most if not all of the fund they are planning to use for income over the next 10 months or so in cash. This would mean selling your underlying investments, which in turn would incur costs.

Second, accessing taxable income from your pension will trigger the money purchase annual allowance, reducing the amount you can save tax-free in a pension each year to just £4,000 (most people have an annual allowance of £40,000, although for those with higher incomes the figure can be lower).

Third, you need to think about the sustainability of your retirement income strategy. If you take 10% of the underlying value of your pension as an income each year and are in good health, there's a good chance you will run out of money in retirement.

One final thought: if you want to generate an income from your pension without having to sell investments, you could try following a 'natural income' strategy. This just means living off the income your investments produce, usually via dividends.

The advantage of this approach is that your capital can continue to grow, although your income is likely to fluctuate from year-to-year.

DO YOU HAVE A QUESTION ON RETIREMENT ISSUES?

Send an email to **editorial@sharesmagazine.co.uk** with the words 'Retirement question' in the subject line. We'll do our best to respond in a future edition of *Shares*.

Please note, we only provide guidance and we do not provide financial advice. If you're unsure please consult a suitably qualified financial adviser. We cannot comment on individual investment portfolios.

Investment trust underperformers named and shamed

We reveals the laggards over the past one, three and five years

Investment trust investors put money to work with an active fund. So if the fund fails to beat the market or its assigned benchmark, you'll understandably feel aggrieved.

The aim of active management is to outperform a benchmark and if the manager to which you entrust your hard earned savings fails to beat the market, then why not just invest in a low-cost passive fund?

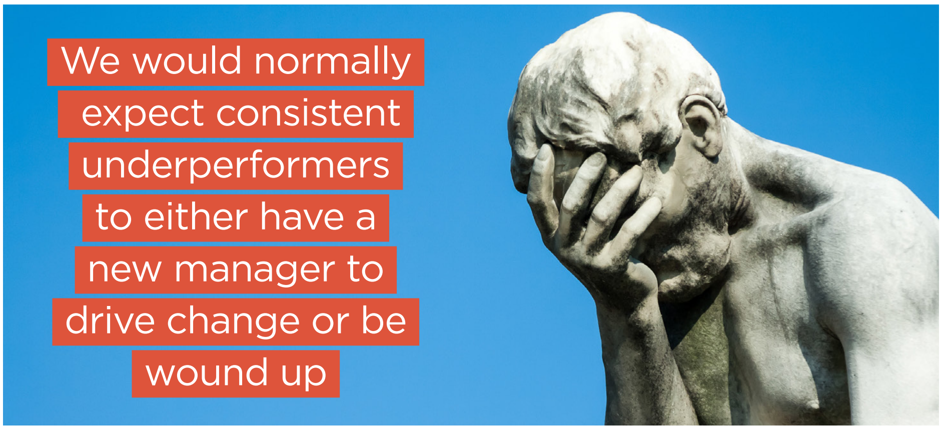
As a way of trying to spot the laggards, we've identified 26 investment trusts that have sat in the bottom quartile of their respective sectors on a one, three and five year basis, based on performance data from FE Fundinfo.

We would normally expect consistent underperformers to either have a new manager to drive change or be wound up. This is happening in some situations but it is surprising to see many investment trusts continue to limp along without any intervention from the board of directors or shareholders.

The accompanying table shows all 26 names and we explain what's going on with several of them later in the article.

TAKE A CLOSER LOOK

Don't automatically write them all off as being bad investments because certain styles may have been out of favour. The data looks at groups of trusts and so one with a value approach, for example, may have been lumped in with one chasing growth opportunities. The two funds might sit together because they both live in the same sector such as the 'global' category where they invest in companies around the world. Growth has been in fashion and value has been out of fashion for quite some time.



INVESTMENT TRUSTS WITH BOTTOM QUARTILE PERFORMANCE OVER 1, 3 AND 5 YEARS
Aberdeen Asian Income
Aberdeen Frontier Markets
International Public Partnerships
Ashmore Global Opportunities
AXA Property Trust
Better Capital 2009
Better Capital 2012
British & American Investment Trust
Chelverton Growth Trust
Chenavari Capital Solutions
EP Global Opportunities Trust
European Opportunities Trust
Ediston Property Investment
Foresight Solar
Ground Rents Income
Highbridge Tactical Credit
Edinburgh Investment Trust
Invesco Perpetual Select Trust
Lowland Investment Company
Jupiter Green Investment
Jupiter UK Growth Investment Trust
JZ Capital Partners
Majedie Investments
India Capital Growth
Riverstone Energy
Scottish Investment Trust

Source: FE Fundinfo

EXAMPLES OF UNDERPERFORMERS

Sometimes market events make it hard to thrive if an investment trust has a specific focus rather than a broad mandate. **Ground Rents Income's (GRIO)** de-rating reflects uncertainty surrounding Government leasehold reform. Trading on a 16% discount to net asset value (NAV), the fund has implemented a strategic review and switched fund manager from Brooks Macdonald to Schroders in a bid to reverse its flagging fortunes.

Joining it in the investment trust performance doghouse is global energy investor **Riverstone Energy (RSE)**. A whopping 57.3% discount to NAV reflects half a decade of underperformance amid a spell which included a large decline in the oil price.

Third quarter results (30 Oct) were impacted by a renewed fall in oil prices which acted as a catalyst for further compression in the multiples of exploration and production (E&P) names. Jefferies analyst Matthew Hose says tackling the discount 'should be key' for the Riverstone Energy board, while rather ominously, a discontinuation vote next year is 'seemingly inevitable' according to Hose.

LONG-TIME LAGGARD

A dire half-decade-long performer, according to the FE Fundinfo data, **British & American (BAF)** has delivered negative share price total returns over one, three, five and 10 year periods, lagging its benchmark FTSE All-Share index in the process.

Some of the pain has come from its main US investment, biopharmaceutical business Geron, whose shares cratered after Johnson & Johnson unexpectedly withdrew from their partnership in September 2018.

Subsequent positive developments from Geron have driven something of a share price upswing in 2019, although Geron needs to perform for the trust's performance to pick up.

British & American is keeping the faith, insistent that Geron 'continues to represent a strong and compelling investment opportunity' and remains 'the focus of our efforts to realise capital gain in the portfolio given the current outlook for the wider investment markets'.

IS THIS A WIND UP?

When wading through the data, investors should be on the lookout for below-par performance, while keeping an eye out for portfolios that are simply being wound up, with proceeds returned to shareholders.

For instance, among the underperformers is **Ashmore Global Opportunities (AGOL)**. In early February 2013, its shareholders actually voted to wind up the company and that process is still ongoing.

Another example is **AXA Property Trust (APT)** which is trading at a 31.3% discount to net asset value. The FE Fundinfo data says the trust has underperformed over one, three, five and 10-year time frames. However, AXA Property is a misnomer. Shareholders have already voted for an investment policy change and almost all of its real estate assets have been sold with the proceeds distributed to shareholders.

This trust has morphed into a deep value investor, taking stakes in UK small caps trading at a deep discount to their intrinsic value, under the guidance of new investment advisor Worsley.

DON'T MISS THE LIST OF OUTPERFORMERS

NEXT WEEK (14 November 2019) we will publish the list of investment trusts which have achieved top quartile performance over the past one, three and five years. Make sure you read *Shares* to find out the names of these funds.

By **James Crux**
Funds and Investment Trusts Editor

SHARES
INVESTOR EVENINGS

14 NOV 2019

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Anexo Group
Speaker: Nick Dashwood Brown, Head of Investor Relations
Anexo Group is a specialist integrated credit hire and legal services group focused on providing replacement vehicles.

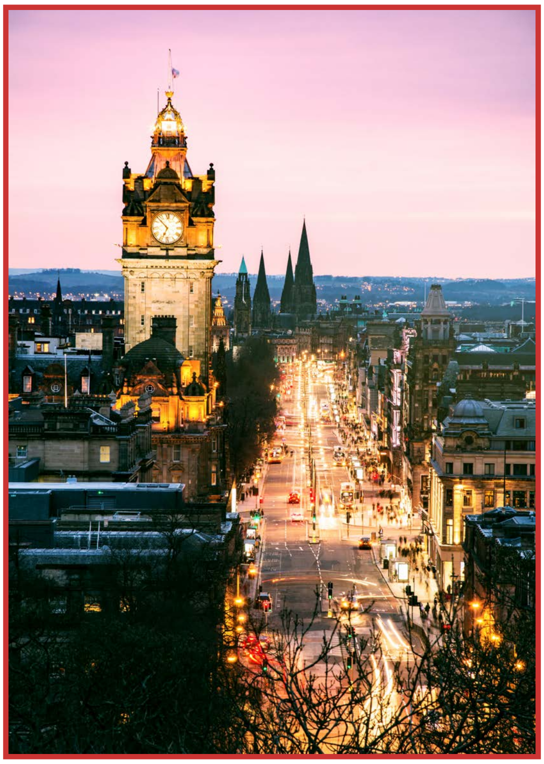
Cambridge Cognition
Speaker: Matthew Stork, CEO
Cambridge Cognition is a neuroscience digital health company specialising in the precise measurement of clinical outcomes in neurological disorders.

Coro Energy
Speaker: Andrew Dennan, CFO
Coro Energy is a London-listed E&P firm building a portfolio in SE Asia. Currently drilling in the West Natuna basin, offshore Indonesia.

Equals Group
Speaker: James Hickman, CCO
Equals Group is a challenger in the financial services sector catering for both business and retail customers.

Scotgold Resources
Speaker: Richard Gray, CEO
Scotgold Resources is primarily focused on the development of its high grade Cononish gold and silver project in the Scottish Highlands.

Shanta Gold
Speaker: Eric Zurrin, CEO
Shanta Gold is a gold producing company with assets in Tanzania.



During the event and afterwards over drinks, investors will have the chance to:

- Discover new investment opportunities
- Get to know the companies better
- Talk with the company directors and other investors

Event details

Registration 17.30
Presentations to start at 18.00
Complimentary drinks and buffet will be available after the presentations

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Contact

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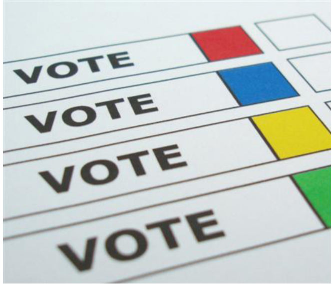
KEY

- **Main Market**
- **AIM**
- **Investment Trust**
- **Fund**
- **Exchange-traded fund**
- **Oversea Share**



KEY ANNOUNCEMENTS OVER THE NEXT WEEK

Full year results

11 November: Carr's. **13 November:** Avon Rubber. **14 November:** Tracsis. **15 November:** Future

Half year results

11 November: Kainos. **12 November:** Electrocomponents, Gear4Music, Aveva, Land Securities, Premier Foods. **13 November:** Renold, SSE, Speedy Hire, Wincanton. **14 November:** Mediclinic, National Grid, FirstGroup, Stobart

Trading updates

11 November: Dignity. **14 November:** Safestore, Regional REIT

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